83-777

Office Supreme Court, U.S.
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NOV 8 1983
ALEXANDER L. STEVAS,
CLERK

No. _____

IN THE

Supreme Court of the United States

October Term, 1983

CLARK EQUIPMENT COMPANY,
Petitioner,

vs.

LOUIS J. KELLER and CYRIL N. KELLER,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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1983—Northwest Brief Printing Co., 3010 2nd St. No., Minneapolis 55411—588-7506

QUESTION PRESENTED

Whether state tort law may be used to require a licensee to continue to pay royalty payments to a patent holder after the licensee successfully invalidates the patents.

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OPINIONS BELOW

The opinion of the court of appeals (Appendix at A-1) is reported as 715 F.2d 1280 (8th Cir. 1983). The opinion of the district court (Appendix at A-25) is reported as 210 U.S.P.Q. 742 (D.N.D. 1981).

JURISDICTION

The judgment of the court of appeals was entered on August 11, 1983. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

U.S. Const. Art. VI, cl. 2 (Supremacy clause).
U.S. Const. Art. I, §8, cl. 8 (Patent clause).

STATEMENT OF THE CASE

Petitioner Clark Equipment Company[1] is a Michigan company engaged in the manufacture of industrial vehicles and equipment. In 1969 it purchased the assets of the Melroe Manufacturing Company, a North Dakota company that

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[1]Companies related to Clark include:

Clark Equipment Australia Limited	Australia
Clark Construction Machinery Limited	Australia
Clark Equipment of Canada Ltd.	Canada
Clark Equipment Credit Corporation	Michigan
Clark Equipment Credit of Canada Ltd.	Canada
Clark Equipment Realty Corporation	Delaware
Clark Financial Marketing Corporation	Michigan
Clark Rental Corporation	Michigan
Clark Rental System, Inc.	Michigan
The White Motor Corporation	Delaware
New River Insurance Agency, Inc.	Delaware
Clark Equipment Engineering and Marketing Corporation	Michigan
Clark Automotive Products Corporation	Michigan
Clark Equipment A.G.	Switzerland
Clark Equipment Belgium N.V.	Belgium
Equipamentos Clark Ltda.	Brazil
Clark Equipment GmbH	Germany
Clark Central Parts GmbH	Germany
Clark Grundstucks GmbH	Germany
Clark Maquinaria, S.A.	Spain
Clark Verkauf und Service GmbH	Germany
Clark International Marketing S.A.	Cayman Island
Clark France Manutention S.A.	France
Clark Transportation Services Corporation	Michigan
Clark Equipment France S.A.	France
Clark Equipment Overseas Finance Corporation	Delaware
Celfor Insurance Co., Ltd.	Bermuda
Clark Credit Bank GmbH	Germany
Clark Leasing GmbH	Germany
Clark Credit France S.A.	France
Clark Equipment Credit of Australia Limited	Australia
Clark Equipment New Zealand Limited	New Zealand
Clark International Finance N.V.	Netherlands
Clark Information Technologies Corporation	Michigan
Clark Telecommunications, Inc.	Michigan
Clark Communications, Inc. of Indiana	Indiana
Clark Long Lines, Inc.	Michigan
Michigan Power Shovel Company	Michigan

manufactured a four-wheel skid steer industrial loader under the trade name "Bobcat." Respondents Louis and Cyril Keller claimed the patent rights to the Bobcat. These rights were embodied in three patents, which were referred to throughout the course of the litigation as the '503, '117, and '254 patents.

Clark continued to manufacture the Bobcat after it acquired the assets of Melroe. Initially, Clark paid the Kellers royalties for the Bobcat under a 1963 licensing agreement between the Kellers and Melroe. Later, in 1971, Clark and the Kellers entered into their own licensing agreement. Under the terms of this agreement the Kellers granted Clark an exclusive right to make and sell the Bobcat, with a concomitant right to sublicense its manufacture and sale. In return, the Kellers received from Clark a $15 royalty for each Bobcat sold by Clark and a $10 royalty for each Bobcat sold by a Clark sublicensee.

Clark entered into sublicense agreements with two other companies, Owatonna Manufacturing Company and J.I. Case Company. Both agreements obligated Clark to enforce its Bobcat patent rights against infringers. Subsequently, both of these licensees advised Clark that unlicensed competitors were marketing infringing loaders. The licensees then suspended royalty payments until Clark took action against the unlicensed infringers.

The unlicensed infringers took the position that the Bobcat patents were invalid. Clark was also aware of previous attacks on the validity of the Bobcat patents that had terminated without resolving the question of the validity of the patents. Finally, Clark discovered in the Melroe files an opinion of a Melroe attorney that at least one of the patents was invalid and "without any possibility of arguing

otherwise." Mindful of *Walker Process Equipment Co. v. Food Machinery and Chemical Corp.*, 382 U.S. 172 (1965), which held that a patent owner asserting invalid patents violated the antitrust laws, Clark determined that it was not prudent to sue the infringing competitors. Instead, Clark filed an action in the Western District of Michigan seeking a declaratory judgment that the three Bobcat patents were invalid and therefore that the royalty agreement with the Kellers was void. Federal jurisdiction over this action was provided by 28 U.S.C. §§1332 and 1338. The Kellers then filed a separate action in the District Court of North Dakota asserting that the patents were valid and that they covered the Bobcat loaders. Venue of the Clark's action in the Western District of Michigan was transferred to North Dakota, and the two actions were consolidated.

The trial court found that all three patents covered patentable inventions. The '117 patent, however, was adjudged invalid under 35 U.S.C. §102(b) because it had been filed more than one year after the Bobcat had been offered for sale. *Clark Equipment Co. v. Keller*, 197 U.S.P.Q. 209 (D.N.D. 1976). On appeal, the Eighth Circuit reversed in part and affirmed in part. *Clark Equipment Co. v. Keller*, 570 F.2d 778 (8th Cir.), cert. denied, 439 U.S. 825 (1978). It upheld the district court's finding that the '117 patent was invalid. The '254 design patent was also found invalid by the Eighth Circuit, however, because it failed to meet the novelty requirements of 35 U.S.C. §171. Finally, the Eighth Circuit agreed with the district court that the only remaining patent, the '503, was valid. The case was then remanded to the district court to determine (a) whether the '503 patent applied to the Bobcat, and (b) the merits of common law breach of contract and tort claims raised by the Kellers in the event that their patents were found to be invalid.

On remand, the district court found that the '503 patent did not apply to the Bobcat. *Keller v. Clark Equipment Co.*, 210 U.S.P.Q. 742 (D.N.D. 1981). Thus, the only remaining possible Keller patent on the Bobcat had no application, and the licensing agreement was void. The district court also determined that the contract claim asserted by the Kellers was unmeritorious. The Kellers had claimed that there was an implied contract between them and Melroe Manufacturing and that, under the terms of this agreement, Melroe had an obligation to file timely the application for the '117 patent. According to the Kellers, Clark assumed Melroe's liability for this obligation when it bought the assets of Melroe.

The tort claim asserted by the Kellers was similar to the contract claim, but the district court reached an opposite conclusion with respect to it. The Kellers claimed that the Melroe company had an obligation to file a timely application on behalf of the Kellers for the '117 patent. This duty had been breached by late filing. Clark then assumed responsibility for this tort when it bought the assets of Melroe in 1969.

In ruling for the Kellers on this claim, the district court found that a duty to file the '117 patent application for the Kellers was assumed by Melroe in 1962. In that year, a dispute arose between Clifford Melroe, a principal of Melroe Manufacturing, and the Kellers over ownership of the patent rights. In a meeting, Clifford Melroe insisted that the Kellers turn over material relating to the patent and that the Company process the application on its own behalf. The Kellers complied with this request, and the Com-

pany filed the application although, as it turned out, the application was untimely. From these facts, the district court inferred the assumption of a duty by Melroe to the Kellers to file the patent application on their behalf.

The district court found that that duty was breached in 1962 when the application was filed late. The injury to the Kellers did not occur, however, until 1972 because only then did Clark cease paying royalties under their licensing agreement. Thus, the 6-year North Dakota statute of limitation did not bar the action. Finally, the district court found that Clark assumed Melroe's tort liability when it purchased the latter's assets under one of two alternative theories: an express assumption under the terms of the purchase agreement, or based upon the legal doctrine of *de facto* merger.

The Eighth Circuit affirmed the district court on August 11, 1983, issuing an opinion that tracked the reasoning of the district court. *Keller v. Clark Equipment Co.*, 715 F.2d 1280 (8th Cir. 1983).

REASONS FOR GRANTING THE WRIT

Federal law demands that ideas in general circulation be dedicated to the common good unless protected by a valid patent. *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969); *Sears, Roebuck v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

To protect this important principle of federal law, the Court, relying on the Supremacy Clause, U.S. Const. Art. VI, cl. 2, and the Patent clause, U.S. Const. Art. I, §8, cl. 8, has reversed lower courts employing state law to expand or alter the limited monopoly granted by federal patent law.

Thus, in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S.

225, 232-33 (1964), the Court refused to condone the use of state unfair competition law to prohibit the copying of an article invalidly patented:

> "To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public."

This principle was reiterated in a companion case, *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 236 (1964), where the Court declared that "when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."

Compco and *Sears* stand for the proposition that state law, particularly tort law, may not act as a surrogate form of protection for invalidly patented articles. Invalidly patented articles, or articles for which patent protection has never been sought, remain in the public domain.

In *Lear v. Adkins*, 395 U.S. 653 (1969), the Court extended the rationale of *Compco* and *Sears* in holding that neither the doctrine of equitable estoppel nor a licensing agreement may be used to prevent a licensee from withholding royalties and contesting the validity of the licensor's patent. The Court explained its rationale as follows:

> "Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If

> they are muzzled, the public may continually be required to pay tribute to would be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued."

Id. at 670-71. *Lear* declared, in the name of federal law and public policy, that licensees must be free to challenge the validity of the patents they license. This freedom would be illusory if the licensor were permitted to maintain a degree of monopoly power over the licensee under the guise of state law.

Read together, *Lear* and the *Compco-Sears* cases establish a clear federal policy in favor of patent licensees like Clark who challenge the patents they license under royalty agreements. This federal policy favors challenges to the monopoly power of patents, and shields licensees from attempts to coerce payment of royalties under the rubric of state law, in particular state tort law, when the patent is determined to be invalid.

The Eighth Circuit's decision in this case flies in the face of this policy. It permits the Kellers, holders of invalid or inapplicable patents, to continue to collect royalties from Clark based on state tort law. As such, the decision stands in opposition to *Compco* and *Sears*, where the Court forbade the use of state unfair competition law, a branch of tort law, as a substitute for invalid patents.

Aronson v. Quick Point Pencil Co., 440 U.S. 257 (1979) is distinguishable. There the Court held valid a clause in a royalty agreement which provided that reduced royalties would be paid even in the event a patent was unobtainable

on the device. In so ruling, the Court permitted state contract law to enforce that clause of the agreement. But the Court emphasized that the "parties contracted with awareness . . . of the possibility that a patent might not issue." *Id.* at 261. Moreover, the application of state contract law was not inconsistent with any aims of federal patent law. In distinguishing *Lear v. Adkins*, the Court noted that "neither the holding nor the rationale of *Lear* controls when no patent has issued, and no ideas have been withdrawn from public use." *Id.* at 264.

Here, unlike in *Aronson*, patents did issue and, based on Clark's challenge, were declared to be invalid or inapplicable. Unlike in *Aronson*, Clark did not contractually undertake to pay royalties in the absence of a valid patent. Indeed, its licensory agreement with the Kellers expressly gave it the right to challenge the validity of the patents. 197 U.S.P.Q. at 88. Nonetheless, the Eighth Circuit's decision forces Clark to pay royalties for invalid patents.

The result is particularly oppressive here where Clark is not even the alleged tortfeasor. Instead, it was judicially decreed to be responsible to pay the royalties under the theory that it assumed liability for the tort. This assumption occurred even though the court acknowledged that Clark had no knowledge of the putative tort, 715 F.2d at 1289, and agreed to assume only those liabilities disclosed by Melroe, *id.*

CONCLUSION

Because the Eighth Circuit's decision in this case, under the guise of state tort law, has cut back significantly the strong federal policy set out in *Lear, Compco-Sears,* and other cases of this Court limiting patent monopoly rights to valid patents, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

Louis J. KELLER and Cyril N. Keller, Appellees,

v.

CLARK EQUIPMENT COMPANY, and
Clark Equipment, A.G., Appellants.

CLARK EQUIPMENT COMPANY, Appellant,

v.

Louis J. KELLER and Cyril N. Keller, Appellees.
No. 82-2066.

United States Court of Appeals, Eighth Circuit.

Submitted May 16, 1983.

Decided Aug. 11, 1983.

HEANEY, Circuit Judge.

This case began as a challenge to the validity of three patents covering various aspects of a successful four wheel loader marketed initially by Melroe Manufacturing Company (Melroe), and subsequently by Clark Equipment Company (Clark), under the trade name "Bobcat." The present appeal involves one of the three patents—a manufacturing patent entitled "tractor vehicle and drive therefore"—which this Court declared invalid under 35 U.S.C. § 102(b) because the application for it was not filed within one year after the invention had been offered for sale. *Clark Equipment Co. v. Keller*, 197 U.S.P.Q. 209 (D.N.D.1976), *aff'd*, 570 F.2d 778 (8th Cir.), *cert. denied*, 439 U.S. 825, 99 S.Ct. 96, 58 L.Ed.2d 118 (1978). Clark now appeals from the district court's holding that Melroe was liable to Cyril

and Louis Keller—two of the owners of the manufacturing patent in question—for its negligent failure to file the patent application in a timely manner and that Clark assumed that liability when it purchased Melroe in 1969. We affirm.

I.

FACTS

A. THE PATENTS

1. *The 503 Patent*

In 1956, Louis and Cyril Keller began building a self-propelled, three-wheel loader. The Kellers completed the first loader in February, 1957, and throughout 1957 and 1958, they made various modifications to improve the machine's design. On December 1, 1958, the Kellers filed an application for a patent on the three-wheel loader. The Patent Office issued U.S. Patent No. 3,151,503 (503 patent) on October 6, 1964. The 503 patent was a mechanical patent entitled "transmission system" and its duration was for 17 years.

2. *The 254 Patent*

In about September, 1958, the Kellers became employed by Melroe. They continued to work on the development of their three-wheel loader, which Melroe was marketing with only limited success. In the summer of 1961, Louis Keller and Clifford Melroe, then president of Melroe, began experimenting with a self-propelled four-wheel skid steer loader.

During the experimentation in 1961, four prototypes of the four-wheel loader were produced. While still developing the prototypes, Melroe began demonstrating and promoting the new loader, which would be marketed under the trade

name "Bobcat," in August 1961. Shortly thereafter, Melroe offered the new loader for sale to Midland Cooperative on September 29, 1961, and to the Farmers Union Central Exchange one week later. In December, 1961, the company commenced commercial production of the Bobcat. On January 4, 1962, it made its first commercial delivery.

Because of the advertising and sales activity surrounding the Bobcat, Louis Keller began urging Clifford Melroe in September or October, 1961, to seek patent protection on the four-wheel loader. When Clifford expressed no interest, Louis obtained permission from Roger Melroe—the company's vice president and Clifford's brother—to pursue patent protection for the four-wheel loader. In February, 1962, and then in early May, 1962, Louis Keller authorized his attorney to begin preparing applications for a design patent and mechanical patent respectively.

At a meeting between the Kellers and the Melroes on May 31, 1962, Clifford Melroe learned for the first time of Louis Keller's patent application efforts. Clifford accused Louis of attempting to steal the patents for the four-wheel loader. Although Roger Melroe attempted to explain the circumstances to his brother, Clifford demanded that he be given all material relating to the mechanical patent and that the company's attorney prepare the application for that patent. With respect to the design patent, Clifford agreed to permit the Kellers' attorney to proceed with the patent application since it was nearly completed, and agreed that he, Louis and Cyril should be listed as co-inventors. Clifford, however, insisted that the design patent be assigned to the company.

On June 21, 1962, the Kellers and Clifford Melroe signed the documents for the design patent application and

the assignment of patent ownership to the company. The design patent application was filed on July 25, 1962, and subsequently was issued on May 21, 1963, as U.S. Patent No. D195,254 (254 patent) under the title "self-propelled loader."

3. *The 117 Patent*

On June 13, 1962, Clifford Melroe contacted the company's patent attorney, John Swindler, concerning a mechanical patent for the new loader. In subsequent conversations, Clifford discussed assigning the mechanical patent to the company and stated that he and Louis Keller were to be named as inventors. Clifford also discussed the application deadline with Swindler. Clifford was generally familiar with the application requirements of the patent laws from his past experience with obtaining patents for Melroe products, and he knew that the four-wheel loader had been demonstrated in the summer or fall of 1961. Nonetheless, Clifford indicated to Swindler that the first loader was not placed on the market until January 4 or 5, 1962.

Swindler, sent the completed patent application and assignment of patent documents to Louis Keller and Clifford Melroe in October, 1962. Keller and Melroe promptly signed the application and returned it to Swindler. They never executed or returned the document assigning the patent to the company, however. Swindler filed the application for the mechanical patent on the four-wheel loader on October 23, 1962—approximately three weeks after the one-year filing deadline. The patent office issued U.S. Patent No. 3,231,117 (117 patent) on January 15, 1966. It was a mechanical patent including eighteen claims which was entitled "tractor vehicle and drive therefor." If the 117 patent had been timely filed, it would have expired on January 25, 1983.

B. THE ROYALTY AGREEMENTS

The respective rights and obligations of the Kellers and Melroe, and its successor Clark, with respect to the 503, 117 and 254 patents were governed by three agreements entered into by the parties.

1. *The 1959 Agreement*

In May, 1959, the Kellers and Melroe entered into an agreement under which the Kellers granted Melroe an exclusive right to manufacture the three-wheel loader, and lifting and scraping devices, disclosed in the 503 patent application. In return, Melroe agreed to pay the Kellers a royalty fee of 2.5 percent of the sales price of each loader sold.

2. *The 1963 Agreement*

On October 1, 1963, the Kellers executed an agreement with Melroe which superceded their 1959 agreement.[1] The 1963 agreement contained two principal changes. First, the Kellers granted the company an exclusive right to make and sell loaders embodying the invention claimed in the 117 patent application, as well as the 503 patent referred to in the 1959 agreement. Second, Melroe agreed to pay royalties to the Kellers pursuant to a fixed rate, rather than the percentage method utilized in the 1959 agreement.[2] Melroe

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[1]Clark contends that this second agreement was not finalized until late 1964 or 1965. The contract which the parties signed, however, is dated October 1, 1963.

[2]The new fixed royalty schedule was $25 for each of the first 1000 Bobcats sold on a yearly basis and $15 for each additional Bobcat sold during the year. This fixed rate schedule apparently resulted in lower royalty payments than the percentage formula utilized in the 1959 agreement.

continued to pay royalties to the Kellers under the 1963 agreement until August, 1969.

On August 11, 1969, Clark and Melroe entered into a purchase of assets agreement. The agreement provided that Melroe, in exchange for 475,000 shares of Clark's voting common stock, would convey to Clark all of Melroe's assets, except as specifically excluded in the agreement. The agreement further provided that Clark would assume all of Melroe's liabilities, obligations, and covenants except as specifically excluded in the agreement. Pursuant to this purchase agreement, Clark continued to pay the Kellers royalties under the 1963 Melroe agreement.

3. *The 1971 Agreement*

In May, 1971, the Kellers and Clark entered into a license agreement which superceded the 1963 agreement. Again, the new agreement contained two principal changes. First, the 254 patent was covered for the first time, when the Kellers granted Clark an exclusive right to make, use and sell (with a right to grant sublicenses) the inventions claimed in the 503, 117 and 254 patents. Second, the royalty rate was changed, with Clark agreeing to pay the Kellers $15 for each Bobcat it sold and $10 per loader sold by a sublicensee. Clark continued to make royalty payments under the 1971 agreement until approximately the second quarter of 1972.

C. INFRINGING ACTIVITY

Shortly after Melroe began marketing the Bobcat loader in 1961, competing loaders appeared on the scene. By 1966, at least five possible unlicensed infringers were in the market. In 1966, Melroe and the Kellers brought a patent enforcement action against Universal Manufacturing to halt

its infringing activities. Universal defended on the ground, *inter alia*, that the 117 patent was invalid because the application for it had been filed too late. In 1968, Owatonna Manufacturing Company, Inc., filed a declaratory judgment action against Melroe and the Kellers to have the 504, 117 and 254 patents declared invalid. Again, the 117 patent was challenged on the ground of late filing. Both the Universal and Owatonna lawsuits were settled without a determination of the validity of the patents.

Subsequently, in 1970, Clark entered into sublicense agreements with Owatonna and J.I. Case Company to manufacture and sell loaders covered by the 503, 117 and 254 patents. Both license agreements obligated Clark to enforce its patent rights against infringers.

Near the time of the signing of the 1971 Clark-Keller agreement, Owatonna and Case began threatening to cease their license payments if Clark did not take action against the unlicensed infringers in the market. In response, Clark stopped paying royalties to the Kellers near the end of the first quarter of 1972, and thereafter filed an action seeking a declaration that its 1971 royalty agreement with the Kellers was unenforceable because the three subject patents were invalid. This filing initiated the protracted legal battle summarized below.

II.

PROCEDURAL BACKGROUND

Clark filed its declaratory judgment action in October, 1972.[3] In August, 1973, the Kellers filed an answer and a

[3]Clark initially filed suit in the Western District of Michigan, but the matter subsequently was transferred in August, 1973, to the District of North Dakota.

counterclaim. The counterclaim (1) sought royalties due from Clark under the 1971 royalty agreement with the Kellers and under certain sublicense contracts between Clark and others, and (2) alleged that Clark or its predecessor in interest, Melroe, had negligently failed to comply with the requirements of 35 U.S.C. § 102(b) by neglecting to file a patent application for the 117 patent within the one-year period after the invention had been offered for sale.

In response to this negligence counterclaim, Clark filed a third-party complaint against the law firm of Williamson, Bains and Moore. Clark alleged that the Williamson firm had represented Louis Keller and Clifford Melroe in prosecuting the application for the 117 patent, and that it had breached its professional obligation to investigate the facts and to file the patent application in a timely manner.

On July 25, 1973, the Kellers filed a separate action against Clark. The lawsuit alleged that Clark and its wholly-owned Swiss subsidiary, Clark Equipment A.G. (CEAG), had failed to account for and pay royalties due pursuant to a license agreement between the Kellers and CEAG, which named CEAG as an exclusive licensee under certain foreign patents corresponding to the licensed patents in the agreement with Clark.

Thereafter, the district court consolidated the separate actions initiated by the Kellers and Clark. Then, in April, 1974, the district court ordered the issues of liability for the alleged late filing of the 117 patent severed from the declaratory judgment action concerning the parties' rights and obligations under the various license agreements. In July, 1974, the district court ordered a separate trial on the issue of the validity of the three patents in question. After a lengthy trial, the district court held that the 503 and 254

patents were valid. *Clark Equipment v. Keller, supra,* 197 U.S.P.Q. at 94-98, 117-121. It further held that the 117 patent covered a patentable invention, but the patent was invalid under 35 U.S.C. § 102(b) because the patent application had been filed more than one year after the invention had been on sale. *Id.* at 109-114. On appeal, this court affirmed the district court's decision with respect to the 503 and 117 patents, but reversed its decision that the 254 patent was valid. *Clark Equipment Co. v. Keller, supra,* 570 F.2d at 784-799.

In a March 30, 1981, decision,[4] the district court held the 503 patent did not cover any product made or sold by Clark, and accordingly, concluded that Clark was not liable to the Kellers under the 1971 royalty agreement for any royalties with respect to that patent. On the Kellers' negligence claim, however, the district court held that Melroe negligently failed to file the application for the 117 patent in a timely manner. The court concluded that pursuant to the purchase of assets agreement between Clark and Melroe, Clark expressly assumed Melroe's tort liability arising from the late filing of the 117 patent. Alternatively, the court held that Clark was liable for Melroe's negligence under the *de facto* merger doctrine. Finally, the court concluded that the Kellers' damages consisted of all the royalties they would have received if the 117 patent had not been adjudged invalid. Clark now appeals from this judgment.

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[4]Prior to this decision, Clark voluntarily dismissed with prejudice its claim against the Williamson law firm, and the Kellers settled their separate action involving the foreign patents and CEAG.

III.

DISCUSSION

A. STATUTE OF LIMITATIONS

[1] Clark contends that the Kellers' negligence action is barred by the applicable six-year statute of limitations established in N.D.Cent.Code § 28-01-16. Clark argues that the Kellers' cause of action accrued on September 30, 1962, which was the last day on which the 117 patent application could have been timely filed, and thus the limitations period ran out on September 30, 1968—four years before the plaintiffs filed suit in 1972. The district court rejected Clark's position, holding that the Kellers initiated their claim within the limitations period because their cause of action did not accrue until 1972 when Clark ceased paying the royalties due under the parties' 1971 agreement. We affirm.

The district court succinctly summarized the controlling principles of North Dakota law:

> A cause of action accrues when the right to commence it comes into existence; when it can be brought in a court of law without being subject to dismissal for failure to state a claim. * * * [A]n essential element of every cause of action is that plaintiff has suffered an injury caused by defendant's wrongful act. Injury is usually but not always contemporaneous with the wrongful act. It is the conjunction of damages and wrongful act that creates a cause of action for tort or contract, and there is no cause of action if either damage or wrong is wanting.

Keller v. Clark Equipment Co., 474 F.Supp. 966, 969 (D.N.D.1979) (citations omitted).

The district court found that although the wrongful act—the failure to timely file the patent application—occurred in 1962, the Kellers suffered no injury until 1972 when Clark stopped making royalty payments. Clark, relying principally upon *Boehm v. Wheeler*, 65 Wis.2d 668, 223 N.W.2d 536 (1974), argues that both the wrongful act and injury occurred in 1962 when the application deadline expired.

In *Wheeler*, the Wisconsin Supreme Court held that a negligence cause of action accrued against an attorney who filed an untimely patent application on the last day that application could have been timely filed. 223 N.W.2d at 541. The court stated:

> It was in October or November, 1965 [when the one-year application deadline passed] that the plaintiffs lost their right to get a patent on the power unit. We think that the loss of the right to a patent is the loss of the right to exclude others and, therefore, the injury occurred on that date the right to a patent was lost. Patents do have the attribute of personal property and are assignable. 35 U.S.C., Sec. 261. The right to exclude others is a valuable right, and the loss of it would be an injury which would commence the running of the statute of limitations. Therefore, the trial court was correct in holding the first cause of action accrued in 1965.

Id.

Relying on the reasoning in *Wheeler*, Clark urges that even though the Kellers continued to receive royalty payments into 1972, they were injured, and thus could have brought their negligence claim, in 1962 because they lost their pat-

ent right to exclude when the application was not filed in time.

The *Wheeler* case is distinguishable from this one. In that case, the Patent Office apparently never issued a patent because of the untimely filing of the application, or if it did so, the plaintiffs never received any payment pursuant to the license agreement. Thus, the plaintiffs in *Wheeler* never received any of the royalties to which their patent entitled them, and their injury consequently was as immediate as it was obvious. In sharp contrast, in this case even though the Kellers technically lost their right to exclude others in 1962 when the patent was untimely filed, they continued to receive royalty payments for ten years from first Melroe and then Clark. Thus, the Kellers theoretical loss of their right to exclude infringing competitors did not actually harm them.

Clark, however, contends that the injury resulting from the loss of the right to exclude others was not merely theoretical. Specifically, Clark claims that the Kellers did not vigorously seek to enforce their patent rights against infringers because they had learned in the 1966 infringement action against Universal that the 117 patent might be invalid due to late-filing. Additionally, Clark emphasizes that because the Kellers had learned of the potential late-filing problem in the 1966 litigation, they had sufficient notice to file a cross-claim against Melroe in the infringement action against Universal or otherwise initiate a declaratory judgment action prior to September 30, 1968.

We find Clark's position unpersuasive. Common sense dictates that the Kellers would have no reason to sue Melroe, their own employer, as long as it was continuing to pay the royalties due under the parties' agreement. Moreover, if the

Kellers had filed a negligence claim while they were still receiving royalties, it almost surely would have been subject to dismissal. An essential element of any negligence action in North Dakota is damage which was proximately caused by the alleged breach of duty. *See infra,* at 1287. While the necessary proof of damage need not be exact, it cannot be mere speculation or conjecture. *See Johnson v. Monsanto Co.,* 303 N.W.2d 86, 93 (N.D.1981); *United Power Association v. Heley,* 277 N.W.2d 262, 268 (N.D.1979). Clark's theory that the Kellers were damaged in some amount because their knowledge of the late-filing problem allegedly caused them to not vigorously enforce their patent rights is at best speculative and conjectural.

In any event, we are not convinced that the Kellers were less than vigilant in enforcing their patent rights. They, along with Melroe, brought infringement claims against Universal and Owatonna in 1966 and 1968, respectively. An inventor need not always litigate the validity of his or her patent against every possible infringer to retain his or her patent rights. *See Jenn-Air Corp. v. Penn Ventilator Co.,* 464 F.2d 48, 50 (3rd Cir.1972); *Montgomery Ward & Co. v. Clair,* 123 F.2d 878, 883 (8th Cir.1941).

Accordingly, the district court did not err in finding that the negligence action filed by the Kellers in 1973 did not accrue until 1972, and that it thus was not barred by the applicable six-year statute of limitations.

B. THE NEGLIGENCE CAUSE OF ACTION

[2] The elements of a negligence cause of action under North Dakota law are the existence of a duty, failure to discharge that duty and resulting injury which is proximately caused by the breach of duty. *E.g., Brauer v. James J. Igoe*

& Sons Construction, Inc., 186 N.W.2d 459, 468 (N.D.-1971). Clark contends that the Kellers are not entitled to relief in this case because they possessed no protectible interest in the 117 patent in 1962, and, therefore, Melroe owed them no duty to file the patent application in a timely manner. Specifically, Clark urges that even though Louis Keller[5] was named inventor in the 117 patent, Melroe was the exclusive owner of the patent because it had hired Louis to engage in inventive activities.

Clark relies primarily on N.D.Cent.Code § 34-02-11, which states:

> Everything which an employee acquires by virtue of his employment, whether acquired lawfully or unlawfully or during or after the expiration of the term of his employment, except any compensation which is due him from his employer, belongs to the employer.

Although there are no cases construing this North Dakota law, the prevailing view in the United States is that when a person is employed for the purpose of inventing, and he or she succeeds in that task during the period of employment, the employer is the equitable owner of the invention and the employee must assign to the employer any patent he or she may obtain on the invention. *E.g., United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187, 53 S.Ct. 554, 557,

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[5]The 117 patent names only Louis Keller and Clifford Melroe as the inventors of the subject claims. The 1963 royalty agreement, however, recognizes both Louis and Cyril Keller as the developers of "certain self-propelled vehicles * * * and a novel drive or transmission system for driving said vehicles." The 1971 agreement refers to Cyril and Louis Keller as "joint owners" of the 503, 117 and 254 patents. Because Cyril Keller is expressly named in the 1963 and 1971 agreements, the district court properly denied Clark's summary judgment motion to dismiss Cyril as a plaintiff in the negligence action. *Keller v. Clark Equipment Co.*, 474 F.Supp. 966, 969-970 (D.N.D. 1979).

77 L.Ed. 695 (1933); *Melin v. United States*, 478 F.2d 1210, 1213 (Ct.Cl.1973).

The district court found that Louis Keller was hired for his inventive abilities. Thus, absent any express or implied agreement by the parties to the contrary,[6] Melroe would have been the exclusive owner of the 117 patent under N.D.Cent.Code § 34-02-11. The district court, however, found that Melroe indeed agreed to recognize that the Kellers retained an ownership interest in the 117 patent and never claimed sole ownership. The court primarily based this finding on the 1963 agreement in which Melroe agreed to pay royalties to the Kellers on the 117 patent application in exchange for an exclusive license.

Clark challenges the district court's reliance on the 1963 agreement, contending that the agreement constituted a compromise to resolve a dispute over who owned the 117 patent under which Melroe conveyed to the Kellers an interest in the 117 patent in exchange for a reduction in royalty fees due under the 1959 agreement. Clark also urges that the 1963 agreement was not actually finalized until 1965 after protected negotiations. Thus, Clark contends the 1963 agreement provides no evidence that the Kellers possessed an ownership interest in the 117 patent in 1962 which could give rise to a duty on the part of Melroe to timely file the patent application.

Clark's position is untenable. The plain language of the 1963 agreement provides that "*the Kellers grant to Melroe* the sole and exclusive right and license" to make and sell loaders embodying the 117 patent. (Emphasis added).

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[6]It is clear that an employer may contract away—either expressly or impliedly—the patent rights it would possess absent such an agreement. *E.g., Aero Bolt & Screw Co. of California v. Iaia*, 180 Cal.App.2d 728, 5 Cal. Rptr. 53 (1960).

Moreover, the whereas clauses of the agreement explicitly recognize that "the Kellers have developed and invented certain self-propelled vehicles" and that *"Melroe desires to obtain* and *the Kellers are willing to grant Melroe* a license to make and sell such vehicles." (Emphasis added). Nowhere in the agreement does Melroe agree to convey anything to the Kellers—except for a royalty fee in exchange for the exclusive license granted by the plaintiffs. As the district court recognized, if the Kellers possessed no ownership interest in the 117 patent prior to the 1963 agreement, they could not have granted a license to Melroe nor would the company have had to agree to pay them royalty fees.

With regard to the effective date of the 1963 agreement, the document is dated October 1, 1963. The record, read as a whole, suggests that the agreement was effective as of that date even though some details remained to be finalized. In any event, even if the question of the Kellers' ownership interest in the 117 patent was not resolved until 1965, the fact remains that in the agreement signed by the company, it recognized that the Kellers had developed various self-propelled loaders, that they had a protectable interest in the 117 patent and that Melroe must pay royalty fees to obtain the Kellers' permission to utilize that patent. The clear inference from this recognition in the 1963 agreement is that the Kellers held an ownership interest in the 117 patent in 1962 when Melroe failed to file the patent application in a timely manner.[7]

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[7]Clark also argues that Melroe evinced its intent in 1962 to exercise sole ownership over the 117 patent by sending, at the request of Clifford Melroe, an assignment of the patent to Louis Keller. The court below rejected this argument because the assignment was never executed, Clifford could not recall why it had not been executed, and Louis did not remember ever being asked to sign the document. Under these circumstances, we agree with the district court that the failure of the par-

The district court also properly recognized that the 1971 agreement between Clark and Melroe provides evidence that the Kellers possessed an ownership interest in the 117 patent which created a duty to file the patent applications. That agreement expressly states that "the Kellers are joint owners" of the 503, 117 and 254 patents, and, like the 1963 agreement, provides that the Kellers "grant" an exclusive license to Clark in exchange for certain royalty payments.

[3] In summary, the fact that Melroe, and subsequently Clark, paid royalties to the Kellers on the 117 patent for over nine years is inconsistent with Clark's present claim that the Kellers did not have any ownership interest in that patent. Accordingly, the district court did not err in finding that the plaintiffs had such a protectable interest and that Melroe consequently had a duty to file the application for the 117 patent in a timely manner.[8]

C. CLARK'S LIABILITY

1. *Contractual Assumption*

[4] As a general rule, when one company sells or otherwise transfers all of its assets to another company, the trans-

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ties to execute the assignment rebuts any inference of Melroe's intent to claim sole ownership which purportedly results from the fact that the document was sent. Moreover, we agree with the district court that the argument that Melroe intended to claim sole ownership in all inventions developed by its employees tends to be rebutted by the fact that the company attorney prepared a contract in which all employees would agree to assign future patents arising from their employment, but the employees never signed the contract.

[8]When two people jointly make an invention, they must apply for a patent jointly and both must sign the application. 35 U.S.C. § 116. Thus, notwithstanding the Kellers' interest in the 117 patent, neither Clifford Melroe nor the Melroe company would have had an obligation to file the patent application to protect that interest. The district court, however, held that Clifford Melroe, on behalf of the company, assumed that obligation by representing at the May 31, 1962, meeting that the company's attorney would prosecute the application for the 117 patent. Clark does not appeal from this finding.

feree is not liable for the debts and liabilities of the transferor. *Armour-Dial, Inc. v. Alkar Engineering Corp.*, 469 F.Supp. 1198, 1201 (E.D.Wis.1979); *J.F. Anderson Co. v. Myers*, 269 Minn. 33, 206 N.W.2d 365, 368 (1973); Annot., 49 A.L.R.3d 881 (1973) (collected cases). That general rule is inapplicable, however, when the transferee expressly or impliedly agrees to assume the transferor's debts and liabilities. *Id.*[9]

[5] The district court found that in this case the plain terms of the 1969 purchase agreement between Clark and Melroe demonstrated Clark's intent to assume the Keller liability. We agree with this determination.

In the whereas portion of the purchase agreement, Clark agreed to "assume all the liabilities, obligations and covenants of Melroe, except as specifically excluded herein, all as hereinafter provided." The written assumption attached to the purchase agreement pursuant to sections 3.1 and 3.2 of the agreement stated:

> [Clark] * * * assumes and agrees to pay * * * to the extent that they are existing and outstanding on the date hereof, * * * such liabilities of Melroe * * * as are to be assumed by Clark * * * under the terms of [the 1969 agreement].

The district court found that Clark assumed Melroe's liability to the Kellers under the above-stated provisions of the purchase agreement. The court first found that the liability was a contingent one because although the negligent act occurred prior to the closing of the purchase agreement in

[9]Although the North Dakota Supreme Court has not addressed this matter, neither party contends that the court below erred in concluding that these principles represent the law in North Dakota.

1969, the injury to the Kellers—Clark's cessation of the royalty payments—did not occur until after the closing. The court then found that, because Clark did not exclude this contingent liability from those obligations, it agreed to assume responsibility for Melroe's liability to the Kellers.

Clark contends that because the district court held that the Keller's negligence claim did not accrue until 1972 for statute of limitations purposes, it must follow that the claim did not exist at all in 1969. Therefore, Clark argues that it could not have agreed to assume responsibility for the Keller liability since it assumed only those obligations "existing and outstanding" on the date of the purchase agreement. We cannot agree.

The district court properly recognized that in 1969 Melroe's contingent liability to the Kellers was already in existence because the negligent conduct had occurred in 1962. The 1969 purchase agreement demonstrates that Clark considered such contingent liabilities to be "existing and outstanding" obligations since it lists several contingent debts which Clark agreed to pay if Melroe's liability for them was established after the agreement was closed. Moreover, because the Kellers were continuing to receive royalties at the time of the closing, and Melroe thus had no reason to believe that the Kellers would assert their contingent negligence claim, the failure of the 1969 purchase agreement to list the Kellers' claim as a contingent liability evinces no intention to exclude that liability from those assumed by Clark. *See infra*, at 1289-1291.

Clark alternatively urges that even if the Kellers' claim existed in 1969, it was expressly excluded from the assumption agreement because Clark agreed to assume only those liabilities disclosed by Melroe, and Melroe did not disclose

the Kellers' claim. Specifically, Clark relies on section 3.1 of the agreement which stated that Clark did not assume "any liabilities arising out of the breach of any representation or warranty of Melroe contained herein" nor "any liabilities not disclosed due to any misrepresentation by Melroe herein." Clarks contends that the Keller liability arises from Melroe's misrepresentation in not disclosing the contingent negligence claim.

The district court rejected Clark's position, finding that Melroe had made no misrepresentations with respect to the Keller liability. The court reasoned:

> The only provisions of the Agreement in which Melroe warranted or represented anything which would relate to the late filing tort claim are sections 1.4, 1.8, 1.14 and 1.21. In these provisions, however, Melroe only represented that the disclosures were correct to its best knowledge. Since Melroe had no knowledge of the tort claim, its nondisclosure of the claim was not due to any misrepresentation contained in the agreement. Therefore, the late filing tort claim was not specifically excluded, and thus according to the terms of the Agreement was assumed by Clark.

We agree with this analysis.

In section 1.6 of the agreement, Melroe represented that the listed contingent liabilities—which did not include the Kellers' claim—reflected all "known" claims, and that to the "best of its knowledge," no legal action was threatened which would materially affect the company's liabilities. Similarly, in section 1.8 of the agreement, Melroe warranted that "to the best of its knowledge" it was not engaged in or threatened with any legal action.

The foregoing sections demonstrate that the "misrepresentations" which Clark excluded in section 3.1 from its general assumption of liability were only those knowingly made. Even though Melroe was aware of the late-filing problem raised in the Universal and Owatonna litigation in 1966 and 1968, Melroe had no reason to believe in 1969 that the Kellers would assert any claim with respect to the 117 patent. Melroe never failed to fulfill its contractual obligation to pay royalties to the Kellers for use of the 117 patent. Indeed, if Clark had not ceased making royalty payments in 1972, the Kellers' contingent claim never would have become a present one and they would not have filed suit. Thus, Melroe's failure to disclose the Kellers' contingent claim did not constitute a "misrepresentation" within the meaning of section 3.1 of the purchase agreement, and Clark cannot rely on that section to urge that it excluded the Kellers' claim from the liabilities it assumed in 1969.

Notwithstanding the above analysis, Clark argues that Melroe's failure to disclose its contingent liability constituted a misrepresentation within the meaning of section 1.21 of the agreement because it contains no "best knowledge" provisions.[10]

[6] The district court, however, held that in order to construe section 1.21 in harmony with the other warranty provisions in the agreement, an omission would be misleading only if it violated the specific disclosure requirements contained in sections 1.4, 1.8 and 1.14. This construc-

[10]Section 1.21 stated:

Section 1.21. *No Misleading Statements.* Neither the financial statements of Melroe and Melroe, Ltd. * * * nor this Agreement contain any untrue statements of a material fact or omit to state a material fact necessary in order to make the statements contained therein or herein not misleading.

tion was clearly proper under North Dakota law. The intentions of contracting parties must be determined from the instrument as a whole, not from any isolated clause. *Bjerken v. Ames Sand Gravel Co.*, 189 N.W.2d 366, 374 (N.D.-1971). Moreover, a contract must be construed so as to harmonize its various parts whenever reasonably possible. *Id.*; N.D.Cent.Code § 9-07-06. Accordingly, because in 1969, Melroe did not know, nor have reason to know, of the contingent liability to the Kellers, it committed no misrepresentations under the specific disclosure sections or section 1.21 of the purchase agreement.[11] The District court, therefore, did not err in finding that Clark assumed the Keller liability in the 1969 agreement.

2. *De Facto Merger*

[7] The district court alternatively held that Clark was liable for Melroe's negligence under the *de facto* merger doctrine. We affirm.

Although the North Dakota courts have not addressed *de facto* merger questions, the court below found that North Dakota would likely follow the majority view concerning the requirements and applicability of the doctrine. The district court concluded that to find a *de facto* merger, the following elements must be present:

> (1) There is a continuation of the enterprise of the seller corporation, so that there is a continuity of management, personnel, physical location, assets, and general business operations.

[11]This construction also controls section 1.11 of the agreement in which Melroe warranted that it did not have "any indebtedness, contingent or otherwise, except as set forth in [its] balance sheets." Melroe did not breach this warranty by not listing the Kellers' negligence claim because to the best of its knowledge the Kellers were going to continue receiving royalties and they were not intending to assert their claim.

(2) There is a continuity of shareholders which results from the purchasing corporation paying for the acquired assets with shares of its own stock, this stock ultimately coming to be held by the shareholders of the seller corporation so that they become a constituent part of the purchasing corporation.

(3) The seller corporation ceases its ordinary business operations, liquidates, and dissolves as soon as legally and practically possible.

(4) The purchasing corporation assumes those liabilities and obligations of the seller ordinarily necessary for the uninterrupted continuation of normal business operations of the seller corporation.

We find no error in this construction of the *de facto* merger test. *See, e.g., Atlas Tool Co., Inc. v. Commissioner,* 614 F.2d 860, 870-871 (3d Cir.), *cert. denied,* 449 U.S. 836, 101 S.Ct. 110, 66 L.Ed.2d 43 (1980); *Ladjevardian v. Laidlaw-Coggeshall, Inc.,* 431 F.Supp. 834, 838-839 (S.D.N.Y.1977); *Shannon v. Samuel Langston Co.,* 379 F.Supp. 797, 801 (W.D.Mich.1974).

The district court found that each of these four factors was present in this case.[12] Clark does not seriously dispute these findings. Instead, Clark contends a *de facto* merger did not occur here because two indispensable requirements of the doctrine are lacking: (1) the corporation selling its

[12]In the 1969 purchase agreement, Melroe transferred all its assets to Clark in exchange for 475,000 shares of Clark common stock worth approximately $15 million. The Melroe operations—including most management officials, employees and assets—became the Melroe Division of Clark. The former Melroe company, in turn, changed its name to Gwinner Holding Company. It agreed to cease business operations, liquidate and dissolve as soon as legally and practically possible.

assets must not have been amenable to suit after the sale; and (2) the sale must have been performed to actually or constructively defraud the selling corporation's creditors.

Clark urges that the Kellers could have pursued their negligence action under various provisions of North Dakota and Delaware law which purportedly permit creditors to sue a dissolving corporation which is winding up its affairs or to proceed against the former stockholders of a dissolved corporation to whom the assets were distributed. The district court rejected this claim, finding that the Kellers had no effective remedy under either Delaware or North Dakota law. We agree.

Gwinner, the holding company which succeeded Melroe, never was anything but a corporate shell with essentially no assets or business activities. While Gwinner technically remained in business until 1974,[13] it effectively liquidated its assets promptly after the closing of the 1969 purchase agreement by distributing the Clark common stock to the former Melroe shareholders. Gwinner's remaining assets consisted of only $50,000, which the 1969 purchase agreement provided for winding up expenses. It had no employees or business activities capable of producing income. Indeed, the former shareholders of Melroe had covenanted not to compete with Clark's business activities. In addition, Clark has not demonstrated that the Kellers could have held the former Melroe shareholders personally liable for the corporation's negligence nor even that the Kellers in 1978, when they filed suit, could have traced the Clark stock to the former Melroe shareholders to whom the shares were distributed after the 1969 closing.

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[13]Delaware revoked Gwinner's corporate charter in 1974 for failure to file an annual report.

Clark's other primary contention is that the *de facto* merger doctrine is inapplicable here because there is no showing that the 1969 sale was consummated to defraud creditors. We cannot agree.

While evidence of fraudulent intent may strengthen the case for finding a *de facto* merger, such evidence simply is not an indispensable requirement in every case. *See supra,* at 1291. Indeed, the existence of a fraudulent transfer in and of itself generally is considered to be an exception, in addition to the *de facto* merger doctrine, to the general rule that a purchasing corporation is not liable for the debts and liabilities of the selling corporation. *See Acheson v. Falstaff Brewing Corp.*, 423 F.2d 1327, 1329-1330 (9th Cir.1975), *J.F. Anderson Lumber Co. v. Myers, supra,* 206 N.W.2d at 368-369; Annot., *supra,* 49 A.L.R.3d at 883-890.

Accordingly, we find no merit to Clark's objections. The district court, therefore, did not err in finding Clark is liable to the Kellers for Melroe's negligence under the *de facto* merger doctrine.

IV.

CONCLUSION

For the reasons stated above, the decision of the district court is affirmed.

District Court, D. North Dakota, S.E. Div.

Keller et al.
v. Clark Equipment Company et al.
Nos. 4839 and 4875

Decided Mar. 30, 1981

PATENTS

1. Construction of specification and claims—Claim defines invention (§22.30)

Patent claims are measure of patentee's rights.

2. Infringement—Tests of—In general (§39.801)

Specific format employing two analytical techniques is generally followed in determining infringement issue; if there is no literal infringement, there may be infringement under doctrine of equivalents.

3. Infringement — Tests of — Comparison with claim (§39.803)

Patent claims' literal words constitute only the starting point in literal infringement determination.

4. Construction of specification and claims—By specification and drawings—In general (§22.251)
Construction and claims — Claim defines invention (§22.30)

Although patent claims are sole measure of protection and patent is not limited to preferred embodiments shown in specifications, claims are construed in light of specification and drawings and both are read with view of ascertaining invention to determine claim's scope.

5. Construction of specification and claims—By Patent Office proceedings—In general (§22.151)

Patent Office proceedings should be considered in determining claims' scope.

6. Construction of specification and claims—By prior art (§22.20)

State of prior art is important factor in construing claim's scope; prior art cited in file wrapper gives clues as to what claims cover, as claim must be construed to be limited so as to exclude prior art.

7. Infringement — Tests of — Comparison with claim (§39.803)

It is not enough to constitute literal infringement that claim's words read literally on accused device; this is only initial hurdle in establishing literal infringement.

8. Infringement—Claims infringed in terms only (§39.20)

Infringement — Identity of function or operation (§39.50)

Not only do claim's words have to read on accused device in order to sustain literal infringement charge, but accused device must be substantially identical with one alleged to be infringed in result attained, means of attaining that result, and manner in which its different parts operate to produce that result; literal infringement charge is not sus-

tained as to accused device that is substantially different in either of these respects.

9. Infringement — Substitution of equivalents — In general (§39.753)

Infringement — Tests of — Comparison with claim (§39.803)

Infringement is not necessarily ruled out in event patent claim's words do not read literally on accused structure; doctrine of equivalents prevents one from avoiding infringement by making changes in patent that take copied matter outside claim's literal language, but add nothing to invention; in Eighth Circuit, application of equivalency test entails making determination that infringing device is substantially identical to one alleged to be infringed in result attained, means of attaining that result, and manner in which its different parts operate and cooperate to produce that result.

10. Infringement — Combinations — Omission of element (§39.257)

It must be shown that every essential element of combination claim or its equivalent is embodied in accused device, in determining possible infringement; absent such showing, infringement cannot be upheld.

11. Infringement—Additions and improvements (§39.05)

Addition of element to patented structure, as general rule, does not avoid infringement; it is doubtful that addition of wheel on each side which does not substantially change patented vehicle's function and means employed to perform that function avoids infringement.

12. Infringement—Substitution of equivalents—In general (§39.751)

Infringement — Tests of — Comparison with claim (§39.803)

Patent law would reward literally skill and not mechanical creativity if infringement test were whether claim's words read literally on accused device; since law is to benefit inventor's genius and not scrivener's talents, claims must not only read literally on accused structures, but also structure must do same work, in substantially same way, and accomplish substantially same result.

13. Presumption from patent grant—Patent Office consideration of prior art (§55.5)

It is presumed that examiner who searched class and subclass in which particular prior art patent was cross-referenced considered that patent and discarded it as being no more pertinent than art cited by him.

14. Estoppel—In general (§35.01)

Notice and marking patented (§46)

Marking product with patent number, at least in some instances, may estop marking party from asserting that product is not covered by patent.

15. Estoppel—In general (§35.01)

Notice and marking patented (§46)

Kenyon v. Automatic Instrument Co., 87 USPQ 301, does not stand for proposition that patent marking estoppel doctrine is not applicable in case in which patent plate head-

ing "covered by one or more of the following patents" is allegedly vague and allegedly does not convey to public that patent in suit, which is one of at least nine patents listed, was embodied in device in suit.

16. Estoppel—In general (§35.01)

Notice and marking patented (§46)

No statute requires one to mark device with patent number that does not identify patent embodied in device.

17. Estoppel—In general (§35.01)

Notice and marking patented (§46)

Court is hesitant to apply patent marking estoppel doctrine partially because of absence of its application in recent case law and partially because more recent cases have used it as alternative ground for their decisions.

18. Patentability — Anticipation — Prior knowledge, use or sale (§51.223)

Title—Employer and employee—In general (§66.301)

Use and sale—Sale (§69.8)

Person who in course of his employment as company president and on behalf of company took upon himself to file patent, assumed duty toward inventor to exercise reasonable care in doing so; by failing to inform company patent attorney of demonstrations of patented device of which he was aware and sales activities relating to device that he should have discovered and could have discovered with reasonable inquiry, he failed to exercise reasonable care required by circumstances, causing patent application to be filed late, which resulted in damages sustained by inventors.

19. Pleading and practice in courts—State law considered (§53.73)

Title—Employer and employee—In general (§66.301)

Although there are no cases construing N.D. Cent. Code Section 34-03-11, there is general body of common law that governs rights between employer and employee as it relates to inventions and that may aid court in discovering what North Dakota law is; as general rule, law does not regard ordinary employment contract as including right on employer's part to products of employee's inventive genius; rather, it depends upon particular employment contract's terms.

20. Title—Employer and employee—Shop right (§66.307)

Employer is recipient of implied, nonexclusive, royalty-free license, or "shop right," where employee makes and reduces to practice invention on his employer's time, using his employer's tools and other employees' services.

21. Title—Employer and employee— Assignment (§66.301)

Employer of person who is employed for express purpose of using his inventive faculty for his employer to make invention and who succeeds in accomplishing assigned task during period of employment is equitable owner of invention; that employee is obligated by way of implied contract, to assign to employer any patent that may be obtained on invention, since employee has only produced that which he was employed to invent.

22. Title—Employer and employee—In general (§66.301)

Respective rights and obligations of employee's invention arise from employment contract.

23. Title—Contracts—In general (§66.201)

Title—Employer and employee— Assignment (§66.303)

Any particular relevance of fact that employer prepared contract to be signed by all employees by which they would agree to assign all future patent rights arising from their employment may have toward ownership of patent is outweighed by fact that contract was never signed; thus, it supports no inference on employer's part to claim sole ownership in inventions developed by employees, but instead, fact that it was recommended by legal counsel and not done rebuts inference.

24. Title—Co-owners (§66.25)

Title—Employer and employee—In general (§66.301)

Title—Employer and employee— Assignment (§66.303)

Fact that employees-owners of one patent assigned their rights to their employer could, under ordinary circumstances, be evidence of agreement to assign all inventions; this would perhaps be applicable had employer demanded assignment of patent in suit and owner refused; it cannot be inferred from company president's failure to assign his own interest in patent until requested to do so in connection with law suit that company intended to claim sole ownership over patent prior to law suit.

25. Title—Employer and employee— In general (§66.301)

It is reasonable to infer from employer's agreement to pay royalties that it recognized employee-inventor's ownership interest in patent as co-inventor and never claimed sole ownership; notwithstanding any implied right employer may have to employee's invention, parties may contract as they wish and employer may contract away implied right that would come into existence if parties had remained silent; thus, when patent owner and his employer have contracted on royalty basis, question of employer's implied rights to patent is excluded; fact that employer and successor employer, pursuant to royalty license, paid employees royalties on patent for some nine years is inconsistent with employer's contention that employees never had interest in patent.

26. Applicants for patent—In general (§14.1)

Applicants for patent—Who may apply (§14.7)

Two or more persons who jointly make invention must apply for patent jointly and each must sign application; law ordinarily imposes no duty upon co-inventor to file application to protect other co-inventor's interest in patent.

27. Applicants for patent—In general (§14.1)

First co-inventor has duty to exercise reasonable care in filing application so as to protect second co-inventor's interests in invention under circumstances in which second co-inventor had taken steps to make application for patent, first co-inventor on employer's behalf represented to second co-inventor that employer would use its own attorney to proceed on patent application, first co-inventor then took

affirmative steps to secure patent protection, and second co-inventor relied on first's efforts and not daring to interfere with those efforts did not take any further action on patent application.

28. Patentability — Anticipation — Prior knowledge, use or sale (§15.223)

35 U.S.C. 102(b) provides that person is not entitled to patent on invention that was in public use or on sale in this country more than one year prior to patent application's date; failure to abide by Section 102(b) requirement results in destruction of inventor's rights in what would otherwise be valuable patent.

29. Applicants for patent—In general (§14.1)

Patentability — Anticipation — Prior knowledge, use or sale (§51.223)

Pleading and practice in Patent Office — In general (§54.1)

Reasonable care in filing patent application includes exercising reasonable care in complying with Section 102(b) provisions; in certain cases, this would include exercising reasonable precaution in gathering necessary information and fully disclosing this information to patent attorney.

30. Accounting—Parties liable (§11.45)

Applicants for patent—In general (§14.1)

Patentability — Anticipation — Prior knowledge, use or sale (§51.223)

Title—Employer and employee—In general (§66.301)

Reasonable care, in light of extreme importance of filing application within statutory time, requires that first co-in-

ventor, who has taken from second co-inventor right to file patent application, who as company president had access to sales records, make such inquiry as would be necessary to inform himself and patent attorney of company's sales activities; failure to make simple inquiry at sales office that would have placed reasonable person in his position and responsibility on notice of sales activities is negligence; since he was acting in furtherance of, and in scope of his employment, his negligence is attributable to his employer.

31. Accounting—Damages—In general (§11.251)
Accounting — Reasonable or established royalty (§11.65)

Infringement damages are those that are adequate to compensate for infringement, but in no event less than reasonable royalty for infringer's use of invention.

Consolidated actions by Louis J. Keller and Cyril N. Keller, against Clark Equipment Company and Clark Equipment A.G., for royalties, negligence, and breach of contract, and by Clark Equipment Company, against Louis J. Keller and Cyril N. Keller, for declaration of patent invalidity and or rights and obligations under license agreement, in which defendants counterclaim for royalties, negligence, and breach of contract (Williamson, Bains & Moore, third party defendant). Judgment that Clark Equipment Company is not liable under royalty agreement and that Clark Equipment Company is liable for damages resulting from late filing of patent.

See also 197 USPQ 83, 197 USPQ 209, 200 USPQ 64, and 206 USPQ 478.

Malcolm L. Moore, Herman H. Bains, and Williamson, Bains, Moore & Hansen, all of Minneapolis, Minn., and Alan Foss, and Van Osdel, Foss & Miller, both of Fargo, N.D., for Louis J. Keller and Cyril N. Keller.

John D. Kelly, and Vogel, Brantner, Kelly, Knutson, Weir & Bye, both of Fargo, N.D., Thomas D. Allen, Fred E. Schulz, Wildman, Harrold, Allen & Dixon, James P. Ryther; and McDougall, Hersch & Scott, all of Chicago, Ill., and Harry G. Thibault, Buchanan, Mich., for Clark Equipment Company.

Benson, Chief Judge.

Procedural History

The above entitled consolidated actions arise out of a patent license agreement whereunder Louis and Cyril Keller, residents of North Dakota, granted exclusive licenses on three interrelated patents to Clark Equipment Company, a corporation incorporated under the laws of Delaware and with its principal place of business in Michigan. Also at issue was a similar agreement between the Kellers and Clark Equipment, A.G., a Swiss corporation which is a wholly owned subsidiary of Clark. Involved were United States Patents 3,151,503 (hereinafter 503 patent), 3,231,117 (hereinafter 117 patent), and Design Patent 195,254 (hereinafter 254 patent).

The licensed patents relate to a self-propelled four wheel drive skid steer loader manufactured by Clark and others. Clark manufactures the loader at its Melroe Division, formerly the Melroe Manufacturing Company, Gwinner, North Dakota, and sells it under the trade name "Bobcat."

Civil Action 4875 is a declaratory judgment action between Clark, plaintiff, and the Kellers, defendants. The action was originally filed in the United States District Court for the Western District of Michigan on October 10, 1972, seeking in part, an adjudication of the licensed patents. Upon the Kellers' motion, the action was transferred to the United States District Court for the District of North Dakota on August 27, 1973.

On September 19, 1973, the Kellers filed their answer and counterclaim. Their counterclaim in part is for royalties allegedly due under their license agreement with Clark and for their share of royalties due from Owatonna Manufacturing Company, Inc., and J. I. Case Company, nonexclusive sublicensees under the agreement.

The counterclaim further alleges that Clark, as a successor to the Melroe Company, had been negligent in failing to file the patent application on the 117 patent within the one year period after the invention had been in public use or on sale. 35 U.S.C. §102(b). In an amended pleading filed on January 31, 1979, the Kellers alleged additionally that Clark, as successor to the Melroe Company, had breached a contract with the Kellers to timely file the 117 patent application.

In response to the negligence claim, Clark filed a third-party complaint against the law firm of Williamson, Bains & Moore as third party defendant, alleging that if there was negligence in filing the application for the 117 patent, the third party defendants, or predecessor partnerships or partners, who were representing the joint inventors, Louis J. Keller and Clifford E. Melroe, had a professional obligation to investigate the facts and see that the obligation was filed on time. It is alleged that should the 117 patent be found

invalid under 35 U.S.C. §102(b), the third party defendants would be liable to Clark as successor of the Melroe interest.

On April 29, 1974, the court bifurcated the portion of the counterclaim directed at Clark for late filing of the 117 patent, and the third party action.

Civil Action 4839 was originally filed by the Kellers in this court on July 25, 1973, against Clark, setting forth the corresponding allegations in the answer and counterclaim of Civil Action 4875, and naming as an additional defendant Clark Equipment, A.G. The complaint alleged that Clark Equipment A.G., pursuant to a similar license agreement with the Kellers, was an exclusive licensee under certain foreign patents corresponding to the licensed patents in the agreement with Clark, and had failed to account and pay for royalties allegedly due under this contract. This action was consolidated with Civil Action 4875 on December 21, 1973.

On July 18, 1974, the court ordered a separate trial on the issue of validity of the three patents. After a lengthy trial to the court, in an unpublished memorandum decision dated September 23, 1976, this court held the 503 patent and the 254 patent to be valid. The court found the subject matter of the 117 patent to be nonobvious to one possessing ordinary skill in the art, but concluded that the patent was invalid pursuant to the provisions of 35 U.S.C. 102(b) because a machine incorporating all the elements of the 117 patent was "on sale" more than one year prior to the filing of the patent application. On appeal, the Eighth Circuit Court of Appeals affirmed this court's holding as to the 503 and 117 patents, but reversed this court's holding that the 254 patent was valid. Clark Equipment Co. v. Keller, 570 F.2d 778, 197 USPQ 209 (8th Cir. 1978), cert. denied. 439 U.S. 825, 200 USPQ 64 (1978).

The third party complaint against the law firm of Williamson, Bains & Moore has been voluntarily dismissed with prejudice. Furthermore, the Kellers' claim against Clark Equipment, A.G., in Civil Action 4839, and the question of foreign patents has been settled and dismissed as an issue in this litigation. Clark moved for summary judgment on the 117 patent late filing issue, alleging the claim was barred by the statute of limitations and that Cyril Keller was not a proper party because he was not a named co-inventor on the 117 patent. The motions were denied. Keller v. Clark Equipment Co., 474 F.Supp. 966, 206 USPQ 478 (D.N.D. 1979).†

Issues Remaining

Several issues remain to be decided. One of the unresolved issues in Civil Actions 4875 and 4839, is whether Clark is liable to the Kellers under their royalty agreement as it relates to the 503 patent. This requires a determination whether the structure claimed and disclosed in the 503 patent is embodied in any loader manufactured by Clark and its sublicensees from the time Clark ceased paying royalties to the Kellers. Another related issue is whether the doctrine of patent marking estoppel estops Clark from denying the incorporation of the 503 patent structure in its skid steer loaders.

A second unresolved issue is whether Clark is liable to the Kellers for damages resulting from the late filing of the 117 patent. This involves determining whether the Melroe Manufacturing Company breached either a contractual duty or

†For a more detailed procedural history of this case, see this court's memorandum decision of September 23, 1976, and the Eighth Circuit's opinion on appeal, supra.

tort duty owed to the Kellers by failing to diligently prepare and timely file the application for the 117 patent. In the event this issue is found in favor of the Kellers, the additional issue of whether Clark, as successor to the Melroe Manufacturing Company, can be held liable for Melroe's breach of duty, must be decided.

Jurisdiction

The court has jurisdiction in Civil Action 4875 under the Declaratory Judgment Act, 28 U.S.C. §2201 and 2202; the amount in controversy exceeds the sum of Ten Thousand Dollars ($10,000.00) exclusive of interests and costs; is between citizens of different states, 28 U.S.C. §1391 (a) and §1338, and venue lies in this judicial district pursuant to 28 U.S.C. §1391(a).

In Civil Action 4839, the court has jurisdiction over the subject matter under 28 U.S.C. §1332(a), there being diversity of citizenship, the amount in controversy exceeds Ten Thousand Dollars ($10,000.00), and venue lies in this judicial district under 28 U.S.C. §1391(c).

Royalty Liability Under the 503 Patent
The Evidence, Findings, and Conclusions

1. U.S. Patent No. 3,151,503 was issued to Louis J. Keller and Cyril N. Keller on October 6, 1964. The 503 patent is entitled "TRANSMISSION SYSTEM."

2. Clark is the successor in interest to the former Melroe Manufacturing Company, which was exclusively licensed by the Kellers under the 503 and 117 patents pursuant to an October 1, 1963 written agreement. (Ex. 553).

3. When Clark acquired the Melroe Company in 1969, the licenses as well as the other assets of Melroe were transferred to Clark. After Clark acquired the Melroe Company, it continued to pay royalties to the Kellers pursuant to the October 1963 license agreement.

4. In May, 1971, Clark entered into its own license agreement with the Kellers which superceded the 1963 agreement. A copy of the agreement is in evidence as Exhibit 551. By the terms of the license agreement, Clark obtained an exclusive license, with the right to grant sublicenses, to make and sell self propelled loader vehicles embodying the inventions disclosed and claimed in the aforementioned 503, 117 and 254 patents.

5. Pursuant to the provisions of paragraph 4 of the license agreement, Clark agreed to pay the Kellers a royalty of Fifteen dollars ($15.00) for each licensed vehicle made and sold by Clark in a country where there is a licensed patent and Ten Dollars ($10.00) for each licensed vehicle made or sold by a sublicensee of Clark in a country where there is a licensed patent.

6. In March 1970, Clark entered into a nonexclusive sublicense agreement relating to the three patents with J. I. Case Company. In December 1970, Clark entered into a similar agreement with Owatonna Manufacturing Company, Inc. (Exs. 554,555).

7. Clark paid royalties to the Kellers under their May 1971 agreement until early 1972. Shortly thereafter it filed the declaratory judgment action.

8. The application for the 503 patent was filed on December 1, 1958. A copy of the patent was received into

evidence as Exhibit 1, and is attached in the appendix to this Memorandum. Exhibit 8 is a copy of the Patent Office file wrapper of the 503 patent. Exhibit 613 is a blow up of the drawings of the 503 patent.

9. The 503 patent application disclosed a transmission system for self propelled vehicles having independently rotatable propulsion wheels. As disclosed by the drawings of the 503 patent, each of the two propulsion wheels W has a separate but identical transmission system consisting of a pair of clutch units 9 and 9' rotating on stub shafts 12 and 12' connected to plate P. Each clutch unit consists of a pair of clutch plates 11, 11' and 10, 10' adapted for movement into radial frictional clutching engagement with one another when axial pressure is exerted on cam followers 17 and 17'. Mounted on plate P and interposed between plate P and cam followers 17 and 17' is an elongate slideable shifting bar 18 tapered on each end to form cam elements 19 and 19' which can be selectively engaged with cam followers 17 and 17' to move their respective clutches into driving engagement. The thinner middle portion of bar 18 allows both clutches to be simultaneously disengaged resulting in idling of wheel W. Chain belt 20 connects the source of power with sprockets 10a and 10a' on the outer clutch plates 10 and 10 of both clutches, causing them to be rotated in the same direction. Chain 21 is trained over sprocket 11a on inner clutch plate 11' and under sprocket 11a of inner clutch plate 11 and around sprocket 23, which in turn is connected to the propulsion wheel W by chain 25. By training chain 21 under one sprocket wheel and over the other, the chain, as well as wheel W will be driven in opposite directions according to which clutching unit is engaged,

thereby providing selective reverse and forward driving of the propulsion wheel W. This permits the transmission system in cooperation with the propulsion wheels to perform the dual functions of driving and steering the vehicle.

10. The 503 patent application originally contained 11 claims reciting a transmission system for a self propelled vehicle. (Ex. 8. File Wrapper of 503 patent, pages 8-13).

11. In Patent Office action on April 13, 1959, the examiner rejected all the claims. (Ex. 8 File Wrapper of 503 patent, pages 16 and 17). Claims 1-7 and 9 and 10 were rejected as fully anticipated by the Loyd patent. As described by the examiner, Loyd disclosed a self-propelled vehicle having independently rotatable propulsion wheels, a source of power, a belt driven mechanism for transmitting driving power to each wheel, a clutch assembly comprising a pair of clutches adapted to be moved into and out of clutching engagement, one of said clutches being connected to drive the propulsion wheel in a forward direction when engaged, the other clutch being connected to drive the propulsion wheel in a backward direction when engaged and shifting means adapted to selectively engage said clutches.

12. The examiner deemed claims 8 and 11 as unpatentable over Loyd in view of the patent in Schreck.

13. The Schreck patent was introduced into evidence as Exhibit 230. Exhibits 224 and 225 are blowups of the patent drawings. In its memorandum decision of September 23, 1976 this court described the Schreck patent as follows:

> The Schreck patent discloses a self-propelled dolly which is controlled by an operator walking in front of the dolly. As disclosed by the drawings of the Schreck

patent, steering and driving control is achieved through a draft tongue 6 having a rotatable gripping handle 61. A linkage bar 63 connected to handle 61 serves to move a link bar 51 (Fig. 6) for actuation of a pair of clutch units 21, 31 and 22 and 32 through crank arms 49, 50 connected to the opposite ends of link 51. The two clutch assemblies are mounted on upper and lower shafts 16, 17. Shiftable collars 39, 46 on the clutch shafts serve to engage the clutches in response to axial displacement of those collars by thrust pins 58 as the collars are rotated simultaneously by link 51 and crank arms 49, 50. The single dolly support wheel 5 of Schreck is rotationally mounted for steering action by swinging movement of the draft tongue 6. Upward movement of draft tongue 6 stops the vehicle by urging brake shoe 68 against wheel 4. With the draft tongue 6 in an upward position, gripping handle 6 cannot be moved in such a way as to engage the clutches for forward movement of the dolly. Power is transmitted from a motor 12 through a chain 29 to the input sprockets 26, 27 on the clutch shafts 16, 17. A final drive chain 42 to the dolly wheel 4 has its inside face wrapped around clutch output sprocket 36 and its outside face wrapped around lower clutch outside sprocket 37. Thus wheel 4 will be driven forwardly or rearwardly depending upon whether the upper or lower clutch assembly is engaged by hand rotation of handle 61.

14. In reference to claims 8 and 11 the examiner was of the opinion that it would not constitute an invention to substitute a forward and reverse drive means such as that shown

by Schreck for the forward and reverse means of Loyd. This was felt to be an obvious step to one skilled in the art. The examiner also noted that the Schreck patent teaches the concept of training the driven belt over one driving sprocket and under the other driving sprocket, said sprockets driving in the same direction, so as to obtain a forward or reverse drive of the driven belt depending on which clutch is engaged. It was further noted that Schreck disclosed a single control means for simultaneous engagement of one clutch and disengagement of the other. (Ex. 8, page 17).

15. Original claim 11 had claimed the following combination:

> In a self-propelled vehicle having independently rotatable propulsion wheels and a source of power for driving said wheels, a separate transmission system for propelling each of said wheels, each said transmission system comprising a pair of clutches, each said clutch comprising a pair of rotatable, coaxially mounted clutch plates adapted for movement into and out of frictional clutching engagement with one another, belt drive means interconnecting one clutch plate of each clutch with each other and with the source of power and adapted to rotate said clutch plates simultaneously in the same direction, belt drive means interconnecting the other clutch plate of each clutch with each other and with the propulsion wheel, the connection between the belt drive and the clutch plates being such that each plate drives the belt and propulsion wheel in an opposite direction to provide forward and reverse drive for said wheel, and a movable shifting member adapted to selectively engage the clutches to transmit forward or

reverse driving power to the propulsion wheel or simultaneously disengage both clutches to permit idling of said wheel.

16. In response to the rejection by the examiner of its previous claims, the Kellers, through their patent attorney Thomas Lennon, filed an amended application of July 6, 1959. In it they cancelled claims 1, 2, 3, 4 and 10, amended claims 5, 6, 7, 8, 9 and 11 and added new claim 12. (Ex. 8, pages 18-23).

17. Claim 11 was amended by deleting language in the last four lines and adding language so that the last portion of the claim read as follows:

> * * * provide forward and reverse drive for said wheel, cam follower means associated with each of said clutches, and a movable shifting member having a camming surface opposed to and contiguous with adjacent pairs of said cam follower means, said camming surface including a pair of drive promoting cam portions and an idling portion and means for moving said member to selectively engage one of said cam followers or with said idling portion to transfit forward or reverse driving power to said propulsion [sic] wheel or simultaneously disengage both clutches to permit idling of said wheel.

18. New claim 12 had a substantially similar recitation, but more specific, of an elongate, slidable shifting member having a pair of longitudinally spaced apart protruding cam portions contiguously opposed to cam follower means carried by clutches in combination with a single operating mem-

ber in the vehicle cab for reciprocating the slidable member across the cam followers to selectively engage one of the cam portions with one of the cam follower means to drivingly engage one of the clutches. (Ex. 8, page 20).

19. In remarks made by the Kellers' attorney in the amendment, it was argued that it would not be obvious to one skilled in the art to substitute the drive system of Schreck in the structure of the Loyd patent. In addition he made the following argument:

> [T]he shifting mechanism disclosed by Schreck for optionally moving his clutches into and out of driving engagement is quite dissimilar from that shown by applicant and claimed by him, the shifting mechanism of the Schreck device being considerably more complicated and requiring a greater number of elements and a complicated linkage which is more likely to result in malfunctioning then [sic] is applicants [sic].

(Ex. 8, pages 22 and 23).

20. Amended claim 5 reads as follows:

> In a self propelled vehicle having independently rotatable propulsion wheels, and a source of power for driving said wheels, a transmission system for each wheels [sic] each said system comprising two pairs of clutching members, each of said pairs being adaptable for moving into and out of clutching engagement with one another, means connecting one clutching member of each pair with the source of power to drive said members, means connecting the other clutching member of each pair with the propulsion wheel in such fashion as to cause forward or reverse drive depending on which pair of clutching members are engaged,

cam follwer [sic] means associated with each of said pairs of clutching members, and shifting means including a cam member adjacent said cam followers and selectively cammingly engaging one or the other of said cam followers to selectively move one or the other of said pairs of clutch members into clutching engagement so as to selectively drive the propulsion wheel forward or back as desired.

21. On November 10, 1959, the examiner made his second report which stated in part as follows:

> Claims 5 and 6 are rejected as unpatentable over the patent of record to Loyd in view of the patent of record to Schreck. It would be considered obvious to one skilled in the art and an unpatentable step to substitute the forward and reverse unit of Schreck for the forward and reverse unit at each wheel of the Loyd device. Note that elements 39 of Schreck may be termed cam members and elements 58 may be termed cam follower means.

Claims 7-9 were rejected as indefinite. The examiner allowed claims 11 and 12 which became claims 1 and 2 of the 503 patent. (Ex. 8, page 24).

22. In response to the second report of the examiners, the Kellers on March 30, 1960, further amended their application. They amended claims 5-9 and added new claims 13-21. (Ex. 8, pages 25-37).

23. On June 29, 1960, the examiner deemed the amendment to be incomplete, (Ex. 8, page 38), whereupon the Kellers again amended the application on July 19, 1960. (Ex. 8, pages 39-50).

24. On April 25, 1961, the examiner, citing three new patents, including Hellwarth, rejected the amended claims as being unpatentable over the prior art. The Hellworth patent is Exhibit 229.

25. In response to the examiner's actions, the Kellers amended their application on October 27, 1961. They cancelled claims 5, 6, 7, 9, 15, 16 and 20, amended claims 13, 14, 17 and 18, and added new claims 22 and 23. (Ex. 8, pages 54-63).

26. In remarks to the examiner, the Kellers' attorney stated that new claim 22 was drawn along the same general lines as allowed claim 11 and differed therefrom only in the recitation of the directions in which the clutch plates are rotated. He further stated as to new claim 23 as follows:

> New claim 23 is drawn along the same lines as new claim 22 with the exception that the shifting means has been recited in different terms so as to provide applicant with a scope of protection different from that provided by allowed claims 11, 12 and new claim 22. Since these new claims 22 and 23 are patterned along the same general lines as allowed claim 11, they are also believed to be in allowable form.

(Ex. 8, page 58).

27. As this court found in the validity portion of the trial (Memorandum decision of September 23, 1976, page 24), the same basic cam actuated clutch mechanism was again recited in application claims 22 and 23. This recitation included a movable shifting member with a pair of drive promoting cam portions and an idling portion and means

for moving the shifting member to selectively engage one of the drive promoting cam portions with one of a pair of cam followers or with said idling portion to transmit forward or reverse driving power to a propulsion wheel or to simultaneously disengage both clutches to permit idling of the wheel. Application claim 23 included a similar recitation of cam actuating means for the vehicle clutches, in slightly different form.

28. In action taken on February 2, 1962, the examiner allowed application claims 11, 12, 22 and 23, and rejected all others as being anticipated by the prior art. (Ex. 8, pages 64-67). Application claims 22 and 23 became claims 3 and 4 of the 503 patent.

29. The Kellers' subsequent efforts to obtain patent protection on the vehicle itself were unsuccessful, for it was the position of the examiner as well as the U.S. Patent Office Board of Appeals that the Hellwarth patent already disclosed a land vehicle with independently rotatable propulsion wheels which could be used for steering the vehicle. (Ex. 8, pages 131-33).

30. The accused device is a clutch driven skid steer loader manufactured by Clark and its two sublicensees J. I. Case and Owatonna Manufacturing Company.

31. Clark also manufactures hydrostatic driven skid steer loaders. They do not employ a clutching mechanism. A hydrostatic machine is depicted in parts manual, Exhibit 12.

32. The drive system of the clutch driven loaders is typified by the drive of the Model 610 "Bobcat" loader manufactured by Clark and which is depicted in parts manual, Exhibit 10. (Tr. Trans. Vol. I, page 152). The clutch drive

is also depicted in the drawings of the 117 patent. (Tr. Trans. Vol. 1, page 74, testimony of Robert Gottschalk). Exhibit 3 is a copy of the 117 patent.

33. Exhibits 4, 5 and 6 are blowups of the drawing of the clutch mechanism disclosed in the 117 patent. Exhibit 617 is a blowup of page A-13 of Exhibit 10, a figure depicting the transmission system of the Model 610 "Bobcat" loader.

34. The clutch driven "Bobcat" is a small self-propelled loader having four propulsion wheels. Referring to the 117 patent drawing, Fig. 4, Exhibit 4, there are two propulsion wheels 11 on each side, which rotate independently from the two on the opposite side. Each side has separate but identical transmission systems. Referring to exhibit 618, each transmission system consists of two clutches. Each clutch has an input plate 15 and an output plate 18 rotated around a common axis, shaft 12. The source of power is transferred to sprocket 27. A chain connecting sprocket 27 with the two outer clutch plates 18, drives the two clutch plates simultaneously in the same direction. Chain 19 is trained over one of the inner clutch plates 15 and under the other inner clutch plate, and around sprocket 20, which in turn transfers power to the propulsion wheels. This over and under arrangement results in the two propulsion wheels being propelled in either a reverse or forward direction depending on which clutch is engaged. The shifting member for the clutches consists of items 5, 10, and 11 which are operated by lever 6. Items 11 are externally threaded collars and are fixed to shafts 12. Items 5 are internally threaded rotary actuators which are positioned on collars 11. Item 10 is a bar connecting the rotary actuators in such a manner that when it is moved for-

ward or backward, the actuators are rotated. The threads on one actuator and its corresponding collar is right handed while the other actuator and the corresponding collar is left handed. Thus, rotation of actuators 5 causes those actuators to move axially on the fixed threaded collars 11. The opposite threaded arrangement causes one of the actuators to move toward and exert pressure on thrust bearing 13 and washer 14, and the corresponding clutch plate, engaging that clutch. Simultaneously, the other actuator is moved axially away from the other clutch, disengaging it. Reverse movement of bar 10 will in turn reverse the movement of the actutors and change the engagement of the clutches. The actuators can be positioned so as to put both clutches in a neutral position.

35. The 1971 exclusive license agreement between Clark and the Kellers provided that Clark shall apply to all devices embodying the inventions disclosed and claimed in the three patents, patent markings for the three patents in accordance with the applicable statutes.

36. On the "Bobcat" skid steer loaders manufactured by Clark, a patent marking plate has been utilized.

37. The marking plates contain the heading "COVERED BY ONE OR MORE OF THE FOLLOWING PATENTS." Exhibit 777 is an example of a patent marking decal appearing on the loaders in 1979.

38. The plates are revised periodically. The procedure followed is that Clark's legal staff contacts the Engineering Liaison Supervisor, advising him that a patent number should be added or deleted. The Supervisor in turn initiates an engineering change request which initiates the changes

required. Exhibit 776 is an example of such an engineering change notice.

39. Since 1972, the plates have been amended several times and at various times have contained a listing of from 9 to 38 United States Patents. Exhibit 228 is a compilation of all the patents which were shown on the marking plates for the skid steer loaders since 1972.

40. Until about 1974, Clark applied a universal patent marking plate on both their farm implements and their skid steer loaders manufactured by their Melroe Division. After that time, the Melroe Division split into an Agricultural Implement Division and a Bobcat division. Thereafter, each division had its own patent plate.

41. The same patent plates appear on both the clutch driven and hydrostatic models of the Bobcat loaders. The patents listed include some applicable only to hydrostatic loaders. Patents are also listed which cover optional attachments for the Bobcat not sold with the basic units.

42. U.S. Patent No. 3-151,503 has been listed on all patent marking plates for all models of skid steer loaders manufactured and sold by Clark from January 1, 1972 to date. (Response of Clark to Kellers' Requests for Admissions, Ex. 619).

Conclusions of Law

The court concludes on the basis of all the evidence that none of the skid steer loaders manufactured by Clark and its sublicensees embody the intention disclosed and claimed in the 503 patent.

The court further concludes that Clark is not estopped

by reason of its marking the 503 patent number on their skid steer loaders from denying royalty liability.

Discussion of the Facts and Application of the Law

[1, 2] It is well settled that the claims in a patent are the measure of the patentee's rights. L. S. Donaldson Company v. LaMaur, Inc., 299 F.2d 412, 417, 132 USPQ 486, 490 (8th Cir. 1962). In determining the issue of infringement, a specific format employing two analytical techniques is generally followed. First, the court determines whether there is literal infringement. And if there is no literal infringement, there may be infringement under the doctrine of equivalents. See Parmelee Pharmaceutical Company v. Zink, 285 F.2d 465, 469, 128 USPQ 271, 274-275 (8th Cir. 1961).

[3] As stated in Graver Mfg. Co. v. Linde Co., 339 U.S. 605, 607, 85 USPQ 328, 330 (1950), "In determining whether an accused device or composition infringes a valid patent, resort must be had in the first instance to the words of the claim. If [the] accused matter falls clearly within the claim, infringement is made out and that is the end of it." The literal words of the patent claim constitute, however, only the starting point in the determination of literal infringement.

[4, 5, 6] Although the claims made in the patent are the sole measure of protection, Aro Mfg. Co. v. Convertible Top Co., 365 U.S. 336, 339, 128 USPQ 354, 356-357 (1961), and although a patent is not to be limited to the preferred embodiments shown in the specifications, Continental Paper Bag Co. v. Eastern Bag Co., 210 U.S. 405, 419 (1908); Ziegler v. Phillips Petroleum Company, 483

F.2d 858, 869, 177 USPQ 481, 487-488 (5th Cir. 1973), cert. denied, 414 U.S. 1079, 180 USPQ 1 (1973), to determine their scope, the claims are to be construed in the light of the specifications and drawings and both are to be read with a view of ascertaining the invention. United States v. Adams, 383 U.S. 39, 49, 148 USPQ 479, 482-483 (1966); Studiengesellschaft Kohle v. Eastman Kodak Co., 616 F.2d 1315, 1324, 206 USPQ 577, 585-586 (5th Cir. 1980); Ellipse Corporation v. Ford Motor Company, 452 F.2d 163, 167, 171 USPQ 513, 514-515 (7th Cir. 1971), cert. denied, 406 U.S. 948, 173 USPQ 705 (1972); Ethyl Corporation v. Borden, Inc., 427 F.2d 206, 209, 166 USPQ 97, 99 (3rd Cir. 1970); Illinois Tool Works, Inc. v. Brunsing, 389 F.2d 38, 40, 156 USPQ 610, 610-611 (9th Cir. 1968); Food Processes, Inc. v. Swift Company, 280 F.Supp. 353, 357, 155 USPQ 640, 643-644 (W.D. Mo. 1966); Rota-Carb Corporation v. Frye Manufacturing Company, 197 F.Supp. 54, 60, 130 USPQ 307, 312-313 (S.D. Iowa 1961), aff'd, 313 F.2d 443, 136 USPQ 507 (8th Cir. 1963). Additionally, proceedings before the patent office should be considered in determining the scope of the claims. Graham v. John Deere Co., 338 U.S. 1, 33, 148 USPQ 459, 472-473 (1966); Ingersoll-Rand Company v. Brunner & Lay, Inc., 474 F.2d 491, 498, 177 USPQ 112, 116-117 (5th Cir. 1973), cert. denied, 414 U.S. 865, 179 USPQ 321 (1973); Autogiro Company of America v. United States, 384 F.2d 391, 398-99, 155 USPQ 697, 703-704 (Ct. Cl. 1967); Morpul, Inc. v. Glen Raven Knitting Mill, Inc., 357 F.2d 732, 734, 149 USPQ 1, 2-3 (4th Cir. 1965). Finally, the state of the prior art is an important factor in construing the scope of a claim. See Graham v. John Deere Co., supra; Decca Limited v. United States, 420 F.2d 1010, 1013, 164

USPQ 348, 350-351 (Ct. Cl. 1970), cert. denied, 400 U.S. 865, 167 USPQ 321 (1970); Morpul, Inc. v. Glen Raven Knitting Mill, Inc., supra; Hansen v. Siebring, 231 F.Supp. 634, 642, 142 USPQ 465, 471 (N.D.Iowa 1964), aff'd, 346 F.2d 474, 145 USPQ 634 (8th Cir. 1965), cert denied, 382 U.S. 943, 147 USPQ 541 (1965). The prior art cited in the file wrapper gives clues as to what the claims do not cover. Autogiro Company of America v. United States, supra at 399, 155 USPQ at 703-704, for it is axiomatic that a claim must be construed to be limited so as to exclude the prior art. Smith v. Mid Continent Inv. Co., 106 F.2d 622, 624, 43 USPQ 59, 60-61 (8th Cir. 1939).

[7] Furthermore, to constitute literal infringement it is not enough that the words of the claim read literally on the accused device. This is only an initial hurdle in establishing literal infringement. In Westinghouse v. Boyden Power Brake Co., 170 U.S. 537 (1898), the Court stated as follows:

> But even if it be conceded that the Boyden device corresponds with the letter of the Westinghouse claims, that does not settle conclusively the question of infringement. We have repeatedly held that a charge of infringement is sometimes made out, though the letter of the claims be avoided. * * * The converse is equally true. The patentee may bring the defendant within the letter of his claims, but if the latter has so far changed the principle of the device that the claims of the patent, literally construed, have ceased to represent his actual invention, he is as little subject to be adjudged an infringer as one who has violated the letter of a statute has to be convicted, when he has done nothing in conflict with its spirit and intent.

Id. at 568 (citations omitted).

[8] Therefore, in order to sustain a charge of literal infringement, not only do the words of the claim have to read on the accused device, but the accused device must be substantially identical with the one alleged to be infringed in the result attained, the means of attaining that result, and the manner in which its different parts operate to produce that result. If the accused device is substantially different in either of these respects, the charge of literal infringement is not sustained. Graver Mfg. Co. v. Linde Co., supra at 608-09, 85 USPQ at 330-331; Nat. Rolled Thread, Etc. v. E. W. Ferry Screw Prod., 541 F.2d 593, 599-600, 192 USPQ 358, 363-364 (6th Cir. 1976); Business Forms Finishing Service, Inc. v. Carson, 452 F.2d 70, 76, 171 USPQ 519, 523-524 (7th Cir. 1971); Decca Limited v. United States, supra, at 1014, 164 USPQ at 351-352; Autogiro Company of America v. United States, supra at 399-400, 155 USPQ at 703-705; Skirow v. Roberts Colonial House, Inc., 361 F.2d 388, 391, 149 USPQ 882, 884-885 (7th Cir. 1966); Pursche v. Atlas Scraper and Engineering Co., 300 F.2d 467, 482, 132 USPQ 104, 115-116 (9th Cir. 1962). See also Ronson Patents Corp. v. Sparklets Devices, 202 F.2d 87, 93, 96 USPQ 201, 205-206 (8th Cir. 1953); Montgomery Ward & Co. v. Clair, 123 F.2d 878, 881, 51 USPQ 499, 502-503 (8th Cir. 1941).

[9] In the event the words of the patent claim do not read literally on the accused structure, infringement is not necessarily ruled out. The doctrine of equivalents prevents one from avoiding infringement by making changes in a patent which take the copied matter outside the literal language of the claim, but add nothing to the invention. Graver

Mfg. Co. v. Linde Co., supra at 607, 85 USPQ at 330. In this circuit, applying the equivalency test entails making the determination that, " 'the infringing device [is] substantially identical with the one alleged to be infringed in (1) the result attained; (2) the means of attaining that result; and (3) the manner in which its different parts operate and cooperate to produce that result.' " Farmhand, Inc. v. Craven, 455 F.2d 609, 611; 173 USPQ 1, 2-3 (8th Cir. 1972). The relationship between literal infringement and infringement under the doctrine of equivalents has been described as follows: "Equivalence is the obverse of the discounting of literal overlap. The latter is to protect the accused; the former to protect the patentee." Autogiro Company of America v. United States, supra at 400 155 USPQ at 704-705.

[10] The parties are not agreed as to the scope of any of the four claims of the 503 patent but are agreed that if claim 4 does not cover the Bobcat loader, neither do the other three. (Tr. Trans. Vol. 11 page 88, cross-ex-examination of John C. Barnes). Thus, the first step in determining whether there is literal infringement is reading the language of claim 4 of the 503 patent on the accused device, the clutch-driven Bobcat loaders. In determining possible infringement, it must be shown that every essential element of the combination claim, or its equivalent, is embodied in the accused device. Absent such a showing, infringement cannot be upheld. Scharmer v. Carollton Mfg. Co., 525 F.2d 95, 103, 187 USPQ 736, 742 (6th Cir. 1975).

Claim 4 reads as follows:

> In a self-propelled vehicle having independently rotatable propulsion wheels and a source of power for driving said wheels, a separate transmission system for pro-

pelling each of said wheels, each said transmission system comprising a pair of clutches, each of said clutches comprising a pair of rotatable, co-axially mounted clutch plates adapted for movement into and out of frictional clutching engagement with one another, first belt drive means interconnecting one clutch plate of each clutch with each other and with the source of power and adapted to rotate said clutch parts simultaneously, second belt drive means interconnecting the other clutch plate of each clutch with each other and with the propulsion wheel, one of said belt drive means being wound in the same direction with respect to the plates engaged therewith whereby movement thereof in one direction causes rotation of said plates in the same direction, the other of said belt drive means being wound in opposite directions with respect to the plates engaged therewith whereby movement thereof in one direction causes rotation of said plates in the opposite directions with respect to each other, cam follower means cooperatively interconnected with each of the said clutches, and shifting means including single cam members interconnected by a single shiftable connecting member and contiguous with each of said cam follower means and adapted to selectively cammingly engage one or the other of said cam follower means upon shifting movement of said connecting member for shifting movement of said connecting member for selectively engaging one or the other of said clutches or to simultaneously disengage both of them to permit idling of said wheel.

The accused device is a self-propelled vehicle having a source of power for driving the propulsion wheels. It has

four propulsion wheels, all of which are not independently rotatable. There is not a separate transmission system for each wheel. However, the two wheels on one side of the vehicle are independently rotatable from the two wheels on the other, and each side has a separate transmission system. Referring to Exhibit 618, each transmission system is comprised of a pair of clutches. Each clutch is comprised of a pair of rotatable, co-axially mounted clutch plates 15, 18, adapted for movement into and out of frictional clutching engagement with one another. There is a belt drive means interconnecting one clutch plate. 18 of each clutch with each other and with the source of power, 27 to rotate the clutch plates simultaneously in the same direction. There is a second belt drive means, 19 interconnecting the other clutch plate, 15 of each clutch with each other and with the propulsion wheel. This second belt drive is wound in opposite directions with respect to plates 15 whereby movement of the belt in one direction causes rotation of plates 15 in opposite directions with respect to each other. There are cam follower means, 13, 14 cooperatively interconnected with each of said clutches. The accused device has shifting means, including single members 5, interconnected by a single shiftable connecting member 10 and contiguous with cam follower means 13, 14. The shifting means are adapted to selectively engage one or the other of the cam follower means upon shifting movement of connecting member 10, for selectively engaging one or the other of the clutches or to simultaneously disengage both clutches to permit idling.

[11] In just reading the words of claim 4 on the accused device, it would appear that the clutch driven Bobcat embodies all the elements of the claim, except for the language describing a transmission system for each wheel. The ac-

cused structure differs from the claim in this respect only in having an additional wheel on each side. As a general rule the addition of an element to a patented structure does not avoid infringement. See King-Seeley Thermas Co. v. Refrigerated Dispensers, Inc., 354 F.2d 533, 540, 148 USPQ 114, 119-120 (10th Cir. 1965); Hayes Spray Gun Company v. E.C. Brown Company, 291 F.2d 319, 326, 129 USPQ 383, 389 (8th Cir. 1961); Aluminum Company of America v. Sperry Products, Inc., 285 F.2d 911, 924, 127 USPQ 394, 404-405 (6th Cir. 1960); Ronson Patents Corp. v. Sparklets Devices, 202 F.2d 87, 93, 96 USPQ 201, 205-206 (8th Cir. 1953). Here, the addition of a wheel on each side does not substantially change the function of the vehicle and the means employed to perform that function. Therefore, it is doubtful that that aspect of change would avoid infringement.

Of greater concern, however, and that which was the focus of this portion of the lawsuit, is whether the accused device embodies the essence of the 503 patent, the cam actuated shifting means.

From a reading of the file wrapper it is evident that in each of the four claims it was the portion describing the shifting means which constituted invention over the prior art. For example, when patent claims 1 and 2 were allowed, the examiner rejected others such as claim 5, which were similar in all respects but had a broader recitation of the shifting means. Furthermore, it was that portion of patent claim 1 describing the shifting means which was amended before it was allowed. The examiner was of the opinion that a vehicle having independently rotatable wheels was not invention. This concept was disclosed in the Loyd patent. Nor was it a novel idea to train the driven chain over one

driving sprocket and under the other so as to obtain forward or reverse drive depending on which clutch was engaged. This concept was taught in Schreck. The examiner also stated that it would be considered obvious to one skilled in the art and an unpatentable step to substitute the forward and reverse unit of Schreck for the forward and reverse unit of each wheel of the Loyd vehicle. The examiner had not changed his position on any of these matters when he allowed claim 1 after it had been amended. In addition, at this state of the patent prosecution, it appears that the examiner considered Schreck to be the most pertinent prior art concerning the shifting means. (Ex. 8, pages 17 and 24). The Kellers' attorney, in referring to the shifting means in his remarks to the examiner, argued that the shifting mechanism disclosed by Schreck was dissimilar from that shown in the applicants' device in that the latter was less complicated. Therefore, it is evident that the examiner allowed claims 1 and 2 because he was of the opinion that the cam actuating shifting means disclosed in those claims was patentable over the prior art of Schreck.

When patent claims 3 and 4 were allowed, the Kellers' attorney had argued that they were drawn along the same general lines as previously allowed claims 1 and 2. The court adopted this characterization of those claims when it addressed the validity of the patent. Memorandum of Decision and Order, September 23, 1976, page 24. It further found that with respect to the cam actuated clutch drive features claimed in all of the claims of the 503 patent, the patents to Schreck and Hellwarth were the most pertinent prior art. Id. page 17, finding 40.

In concluding the 503 patent was valid, the court on page 28 of its Order stated as follows:

> * * * but there existed a gap in the teaching of the prior art—Hellwarth and Schreck—as to how to install clutches in such a way to be able to actuate them to maintain steering and forward and reverse control in a smooth and effective manner from the operator's compartment. The Kellers conceived a new clutch drive mechanism, and in addition combined with it an effective, positive cam actuated clutch mechanism which proved to be highly effective and commercially successful. The solution by the Kellers was not readily obvious to one having ordinary skill in the pertinent art.

On the basis of the foregoing, the court concludes the invention in the 503 patent lies in that portion of each of the four claims which describes the cam actuated clutch mechanism.

[12] Looking solely to the language of claim 4, it could be argued that the words describing the shifting means read literally on the accused device. However, if this was the test for infringement, the patent law would "reward literary skill and not mechanical creativity." Autogiro Company of America v. United States, supra at 399, 155 USPQ at 703-704. "And since the law is to benefit the inventor's genius and not the scrivener's talents, claims must not only read literally on the accused structures, but also the structures must 'do the same work, in substantially the same way, and accomplish substantially the same result.' " Id. at 399-400, 155 USPQ at 703-705.

In the 503 structure, referring to Exhibit 613, shifting bar, 18 has protruding camming portions 19 and 19' on each end. This bar is adapted to slide horizontally along plate P. Longitudinal slot 19b encloses stub shafts, 12 and 12' so

as to keep the shifting member in a contiguous relation with the cam follower means. When the bar is shifted horizontally one or the other camming portion will exert axial pressure on cam follower means 17 or 17', which in turn will move their respective clutches into driving engagement. The non-protruding portion of the shifting bar is of sufficient length that it can be positioned to disengage both clutches simultaneously.

Figures 4, 7 and 8 of the 117 patent shown on Exhibits 4, 5 and 6, depict the shifting mechanism for the transmission in a clutch-driven Bobcat loader. Referring to those drawings, internally threaded rotary actuator members, represented by the numbers 95, 99 and 100 and colored pink, are threaded on externally threaded collars 96, which collars are fixed in a stationary position on shaft 71 by means of pins 97. Shifting member 101 connects the two actuators at points 102 in such a manner that moving the member forward or backward will cause the actuators to rotate. Rotation of the actuators causes them to screw in or out in relation to fixed collars 96. One actuator and its corresponding collar is right hand threaded and the other actuator and its corresponding collar is left hand threaded. Therefore, when connecting member 101 is moved forward one of the actuators will screw toward and exert axial pressure on thrust bearing 93 and the corresponding clutch plate, while the other actuator will simultaneously screw away from its corresponding thrust bearing and disengage the clutch. Moving the shifting member the opposite direction will reverse the movement of the actuators. The member 101 can also be positioned so as to put both clutches in a neutral position.

The shifting mechanism of the accused device is sub-

stantially identical with the structure of the 503 patent in the result attained. Both achieve selective engagement of the clutches for reverse or forward driving power. However, the means by which they attain that result and the manner in which their different parts operate to produce that result are substantially different. The shifting bar in the 503 patent requires plate P to aid in the camming action. It provides the axial force of the camming protrusions on bar 18. In the 503 structure the connecting member also acts as the cam and is contiguous with the came followers. In the accused structure, connecting member 101 merely connects the cam members and is not contiguous with thrust bearing 93. Furthermore, in the accused structure, the force required for the camming action is not provided by any side plate, but rather is provided by the screwing action on the stationary collars, 96. The importance of this latter distinction can be gleaned from Louis Kellers' testimony concerning the development of the rotary actuators. (Tr. Trans. Vol. I pages 137-143, direct examination.)

He described that when the 440 series Bobcat loader, a forerunner to the present Bobcat loaders, was being developed, the same slide bar actuated shifting mechanism disclosed in the 503 patent was used. However, a manufacturing problem with the frame developed which upset the slide bar mechanism. On a side plate on the 440, comparable to plate P on the 503 structure, some welding was done between the two clutches. This caused the plate to warp and create a high spot on which the slide bar could rock. The resulting problems were sticking of the clutches, jerking, and lack of control over the machine. This problem never existed in the 503 structure since there was no welding done in that location. The problem was severe. As Louis Keller described

it, "Now when that was warped on the other side, that slick bar gives serious trouble, serious problem in the manufacturing of the frame. There was no straight way to straighten it. Anything you weld on the flat plate in the middle, it's going to warp. There was no way we could hold it without a serious cost." (Tr. Trans. Vol. I page 141). As a result, the threaded rotary mechanism was developed. The problem of the warped plate was solved because the plate had nothing to do anymore with the actuating of the clutches.

[13] The threaded rotary actuators later were incorporated in the 117 patent. This court has already made a finding that the principle features recited in certain claims of the 117 patent which contributed to their allowance were the pairs of rotary threaded actuators for actuating the clutches of the vehicle. (Memorandum of Decision and Order, September 23, 1976, page 29, finding 3). The court also found that when the patent examiner allowed the claims in the 117 patent, he had searched the class and subclass in which the 503 patent was cross-referenced. Id. page 51, finding 129. It is therefore presumed that the examiner considered the 503 patent and discarded it as being no more pertinent than the art cited by him. See Panduit Corporation v. Burndy Corporation, 517 F.2d 535, 538 n.2, 186 USPQ 75, 77 n.2 (7th Cir. 1975), cert. denied, 423 U.S. 987, 188 USPQ 48 (1975).

It is evident that the rotary actuating shifting mechanism of the clutch driven Bobcat loader is substantially different from the 503 structure in both the means by which it attains the desired result and the manner in which its different parts operate to produce that result. The Bobcat shifting mechanism was developed to overcome deficiencies in the 503 structure. It was not a mere improvement over the 503

structure, but rather was an innovative device employing different principles to more effectively achieve the desired result, and a device later found patentable over the disclosures of the 503 patent.

As previously stated, the prior art is helpful in determining what the claims of the 503 patent does not cover. Autogiro Company of America v. United States, supra. Both the examiner and this court treated Schreck as pertinent prior art. Schreck was cited by the examiner both for teaching the over and under belt means and the control means for engaging and disengaging the clutches. (Ex. 8, File Wrapper of 503 patent, page 17). It was by distinguishing the shifting means portion of patent claims 1 and 2 from that disclosed in Schreck which led to their being allowed by the examiner. Since claim 4 was drawn along the same lines, Schreck is also relevant prior art as to it. This being the case, claim 4 must be read so as to exclude the shifting means disclosure of Schreck.

The Schreck structure is described in its patent drawings appearing on Exhibits 224 and 225.

Shifting collars 39 and 40 have extending arms 49 and 50. Connecting member 51 connects the arms so that the collars are constrained to rotate simultaneously in the same direction. When the connecting member is moved up or down, the shifting collars are rotated on shafts 16 and 17 respectively and interposed between shifting collars 39 and 40 and inner supporting plate 18. The shifting collar 39 and adjacent stationary collar 52 on upper shaft 16 and the corresponding elements on lower shaft 17 have on their opposed faces circumferentially spaced recesses 56 and 57, which provide seats for opposite ends of thrust pins 58. The pins are regularly spaced around the axis of the collars at

an incination to the opposed faces of the collar. The pins are so disposed that upon rotating movement of either collar 39 and 40 in one direction the pins move toward a position parallel with the axis and exert an axial thrust on the collar. The thrust pins engaging one shifting collar are inclined opposite to the pins engaging the other shifting collar so that pressure is applied to one collar when it is turned in one direction and to the other collar when it is turned in the opposite direction. When axial pressure is applied to a collar, it exerts pressure on washer 34 and clutch plate 31, engaging the clutch. Thus by moving connecting member 51 up or down, one or the other of the clutches will be engaged, providing forward and reverse power. A neutral position is also provided.

A literal reading of the language of claim 4 relating to the shifting means so as to read upon Bobcat structure would also describe the Schreck shifting mechanism. Schreck has shifting means including single cam numbers 39, 40, contiguous with cam follower means 34, connected by a single shiftable connecting member 51. The single cam members are adapted to selectively cammingly engage one or the other of the shifting of connecting member 51 for selectively engaging one or the other of the clutches or to simultaneously disengage both of them to permit idling. But this is an impermissible reading, for a claim must be construed to avoid the prior art.

Looking beyond the literal language of the claim, it is evident that although the 503 shifting means attains the same result as the Schreck shifting means, the means by which they attain the result are vastly different. The 503 patent achieves the desired result by a positive cam actuated clutch mechanism, with far less parts and linkages than

required by Schreck. The Schreck patent was also considered by the examiner before he allowed the claims of the 117 patent. (Memorandum of Decision and Order, September 23, 1976, page 51, finding 131). The threaded actuators were patentable over the disclosure in Schreck. But if the shifting means portion of claim 4 is read to cover the transmission system in the Bobcat it would also read on the shifting means structure disclosed in Schreck. The file wrapper is clear that when the 503 claims were allowed, the examiner did not intend to give them that scope.

Assuming arguendo that the language of claim 4 reads literally upon the Bobcat transmission system, the latter "has so far changed the principle of the device that the claims of the patent, literally construed, have ceased to represent [the alleged infringer's] invention." Westinghouse v. Boyden Power Brake Co., supra at 568. Although the shifting mechanism of the Bobcat is substantially identical to the 503 mechanism in the result attained, the means by which they attain that result and the manner in which their different parts operate to produce that result are substantially different. There is no literal infringement on the 503 by the accused device.

Since the court has assumed that the words of claim 4 read literally on the accused structure, the court has also disposed of the issue of the doctrine of equivalents. In finding that the accused structure employs substantially different means to attain the desired result and its parts operate in a substantially different manner than the 503 structure, the court has found that the Bobcat transmission system is not equivalent to the 503 structure. Farmhand, Inc. v. Craven, 455 F.2d 609, 611, 173 USPQ 1, 2-3 (8th Cir. 1972).

Having decided that the 503 patent is not infringed by the Bobcat structure, it is necessary to consider the legal effect of Clark's marking its loaders with the patent number. The Kellers contend that because of the marking, Clark is estopped to deny that the clutch driven Bobcat loaders embody the invention disclosed by the 503 patent.

[14] Case law appears to establish that at least in some instances, marking a product with a patent number may estop the marking party from asserting that the product is not covered by the patent. See e.g., Gridiron Steel Co. v. James & Laughlin Steel Corp., 361 F.2d 791, 797, 149 USPQ 877, 881-882 (6th Cir. 1966); Collis Co. v. Consolidated Machine Tool Corp., 41 F.2d 641, 645, 6 USPQ 109, 113 (8th Cir. 1930); Kant-Skore Piston Co. v. Sinclair Mfg. Corp., 32 F.2d 882,885, 2 USPQ 112, 115-116 (6th Cir. 1929), cert. denied, 281 U.S. 735 (1929); Crane Co. v. Aeroquip Corporation, 364 F.Supp. 547,560, 179 USPQ 596, 606-607 (N.D. Ill. 1973), modified, 504 F.2d 1086, 183 USPQ 577 (7th Cir. 1974); Canaan Products, Inc. v. Edward Don & Company, 273 F.Supp. 492,502 (N.D.Ill. 1966), aff'd, 388 F.2d 540 (7th Cir. 1968); Touchett v. EZ Paintr Corporation, 150 F.Supp. 384,391, 113 USPQ 16, 21-22 (E.D.Wis. 1957); Smiths America Corp. v. Bendix Aviation Corp., 140 F.Supp. 46, 52-53, 108 USPQ 302, 306-307 (D.C. 1956), aff'd, 248 F.2d 621, 114 USPQ 518 (D.C. Cir. 1957); Lathrop v. Rice & Adams Corporation, 17 F.Supp. 622,626, 33 USPQ 72, 75-76 (W.D. N.Y. 1936).

[15] Clark contends, relying on Kenyon v. Automatic Instrument Co., 186 F.2d 752, 755-56, 88 USPQ 301, 303-304 (6th Cir. 1951), that the doctrine is not applicable in

the instant case since the patent plate heading, "Covered by one or more of the following patents," is vague and did not convey to the public that the 503 patent, one of at least nine patents listed, was embodied in the Bobcat loader. The Kenyon case, however, does not stand for that proposition. The court considered the patent plate heading as only one of the factors leading it not to apply patent marking estoppel. This was recognized in Smiths America Corp. v. Bendix Aviation Corp., supra, where the court distinguished Kenyon and defendant was estopped to deny infringement where it had marked its product with plaintiff's patent number on a plate containing five patent numbers under the phrase, "Manufactured Under One or More of the Following Patents."

[16] Clark also argued that the contractual provision concerning patent marking prevents patent marking estoppel. It implied that the contract required it to mark the 503 patent number on its skid steer loaders regardless of whether it covered the machine. However, that provision required Clark to mark devices which embodied one of the three patents, in accordance with the applicable statutes. The court is aware of no statute that requires one to mark a device with a patent number which does not identify a patent embodied in the device. Nor did the contract require this action. This alone is no defense to patent marking estoppel. See Gridiron Steel Co. v. James Laughlin Steel Corp., supra at 796-97, 149 USPQ at 880-882.

[17] The court, however, is hesitant to apply the doctrine, partially because of absence of its application in recent case law and partially because the more recent cases which have applied it appear to have used it as an alternative ground for its decision. In Gridiron, supra, the district

court had found that defendant's device embodied features of the patent in question but went on to find patent marking estoppel. Id. at 796, 149 USPQ at 880-881. In Smiths America Corp. v. Bendix Aviation Corp., supra, Canaan Products, Inc. v. Edward Don & Company, supra and Kant-Skore Piston Co. v. Sinclair Mfg. Corp., supra, the court did not use the patent marking estoppel doctrine as the sole ground for its decision. Either the court found infringement or considered additional factors not present here. The decision in Collis v. Consolidated Machine Tool Corp., supra, was a suit for unfair competition in the use of a trade name. The court held the defendant was not guilty of laches since its delay had been induced by reliance on plaintiff's false public representations that certain articles were protected by plaintiff's patent which in fact had expired. 41 F.2d at 645, 6 USPQ at 113. In Crane Co. v. Aeroquip Corporation, supra, the district court found that the accused device did not infringe the patent. Despite its holding of non-infringement the court held that by reason of marking the patent number on the device, the defendant was estopped from denying it was liable for royalties. On appeal, however, the Seventh Circuit Court of Appeals found there was infringement. In referring to the district court's treatment of marking estoppel, the court stated, "it is unnecessary for us to decide the question whether the court was right in holding defendant liable by reason of marking. We express no opinion on that phase of the decision below. 504 F.2d at 1093, 183 USPQ at 581-582.

In the instant case, several factors considered together persuade the court not to apply the doctrine. Other than the marking plates, Clark since 1972 has not represented to the public that their loaders were covered by the 503 patent.

The patent plate heading, along with the number of patents listed, upwards to 38, is another such factor. Furthermore, the same patent marking plate containing the 503 patent number was placed on both clutch-driven and hydrostatic machines. The patent numbers included patents which covered only optional attachments. Applying the patent marking estoppel doctrine as the Kellers wish would reach the result that Clark would have to pay 503 royalties on their hydrostatic loaders, a result not remotely suggested by the Kellers. Also, holders of patents on an optional feature could seek royalties on the loader not equipped with the feature solely because their patent number was listed on the loader. It is equally incredible that the patent marking estoppel doctrine would dictate that Clark pay royalties on the clutch-driven loaders despite the court's holding that the loader does not embody the invention disclosed in the 503 patent. On the record before the court, the court holds that Clark is not estopped from denying that its loaders embody the invention disclosed in the 503 patent.

The court concludes that Clark is not liable for royalties to the Kellers under their license agreement for the 503 patent.

Issue of Late Filing of the 117 Patent Application
The Evidence, Findings, and Conclusions

1. In about September, 1958, Louis and Cyril Keller became employed by the Melroe Manufacturing Company in Gwinner, North Dakota. Louis Keller was employed full time working in the engineering department and devoting his time to loader development. He was paid a monthly salary. Melroe Manufacturing provided the work area and all

the necessary materials. Louis Keller was so employed until 1967.

2. The transmission system for a three wheel front loader which was the subject of the 503 patent was developed by the Kellers before their employment with Melroe Manufacturing. That patent application was filed on December 1, 1958.

3. On May 19, 1959, the Kellers and Melroe Manufacturing entered into an agreement whereby in return for a percentage royalty, the Kellers granted Melroe an exclusive right to manufacture three wheel lifting and scraping devices disclosed in the 503 patent application still being prosecuted. That agreement provided that the Kellers would, at their own expense, continue to protect patent rights, but that Melroe Manufacturing could, at its own expense, take whatever steps it deemed appropriate for establishment and protection of the Keller's patent rights. (Ex. 556).

4. The Kellers' patent attorney at that time was Thomas Lennon, an associate with the law firm of Williamson, Schroeder & Palmatier in Minneapolis. He had processed for the Kellers the 503 patent application and a design patent, D 191,506, covering the design of the structure disclosed in the 503 patent. Louis Keller was sole inventor on the design patent which was filed on April 6, 1960. (Ex. 643).

5. In the summer of 1961, Louis Keller together with Clifford Melroe, then president of Melroe Manufacturing, began developing a new four wheel drive loader.

6. Starting in either September or October, 1961, and continuing into February, 1962, Louis Keller on several occasions approached Clifford Melroe about obtaining ad-

ditional patent protection on the four wheel loader. Clifford Melroe expressed no interest. (Tr. Trans. Vol. IV p. 73).

7. In the fall of 1961, the Kellers were still corresponding with Thomas Lennon concerning the prosecution of the 503 patent. (Exs. 646,647). On November 20, 1961, Louis Keller wrote to Mr. Lennon, enclosing five photographs of the new four wheel "Bobcat" loader, and asked him to review the photographs to see if the design patent covering the three wheel loader would be sufficient to cover the design of the new loader. (Exs. 654,655). The letter and photographs were received by Mr. Lennon on November 22, 1961.

8. On November 24, 1961, Mr. Lennon wrote to Louis Keller stating he had compared the photographs with the design patent on the original loader and that the new loader had a distinctive appearance. He suggested that Louis authorize him to file a new design application for the new loader (Ex. 664).

9. Roger Melroe, then vice president of Melroe Manufacturing, had overheard some of the conversations Louis and Clifford had had concerning patent protection and inquired of Louis what the problem was. This was shortly before February 14, 1962. Louis told Roger about his concern of patent protection for the new loader, explaining his understanding of the one year critical date of the patent laws. Roger told Louis to get the patents started. (Tr. Trans. Vol. VII p. 39).

10. On February 14, 1962, Louis Keller wrote to Thomas Lennon authorizing him to go ahead on a design patent. (Ex. 285). On February 16, the Williamson law firm opened a file on the design patent. (Ex. 261).

11. On February 28, Mr. Lennon wrote to Louis Keller requesting additional photographs he needed for work on the new design patent. He also inquired as to the persons involved in the invention. (Ex. 649).

12. On March 16, 1962, Mr. Lennon again wrote to Louis. In that letter, he discussed further progress on the 503 patent application, including an upcoming interview with the Examiner. He also stated that at the first opportunity he was going to visit Melroe's Minneapolis sales office and look at the latest model of the loader so he could give consideration as to whether it would be advisable for Louis to file a mechanical application on the new loader. He stated this would turn in part on the results of the interview with the Examiner concerning the 503 patent. (Ex. 650).

13. Shortly after, Louis sent to Mr. Lennon a series of photographs of the new loader which Lennon had requested. These photographs were received by Mr. Lennon on March 20, 1962.

14. On April 3, 1962, Mr. Lennon wrote to Louis informing him of the results of the interview with the Examiner on the 503 patent. He further stated that after expected action took place on the 503 application, they would discuss the scope of the 503 claims and give consideration as to whether it would be advisable to file a mechanical application on the new loader. (Ex. 651).

15. Around the first of May 1962, Louis met with Thomas Lennon at the Melroe sales office in Minneapolis. There they observed the new loader and took the side panels off to inspect it. After conferring with Mr. Lennon, Louis verbally authorized him to go forward on a mechanical pat-

ent application for the new loader. (Tr. Trans. Vol. IV p. 98).

16. On May 25, 1962, Mr. Lennon wrote to Louis informing him that the drawings for the new design patent were completed, and again inquiring who should be listed as inventors on the design patent and whether there was going to be an assignment of that patent to Melroe Manufacturing. (Ex. 290).

17. On May 31, 1962, Louis and Cyril Keller and Clifford and Roger Melroe met at the Williamson law office to discuss a license agreement concerning a snow plow attachment the Kellers had developed before coming to work for Melroe Manufacturing. Clifford Melroe had been unaware up to that time of Louis Keller's efforts to get a design and a mechanical patent on the new loader. At the meeting he inadvertently observed the drawings for the new design patent. He became angry, accusing Louis of stealing. Roger attempted to quiet him down, and later, discussions took place. In the course of the discussions it was agreed that since the design patent was nearly completed, Lennon would be allowed to finish it. Louis, Cyril and Clifford were to be listed as co-inventors. Clifford insisted that the design patent be assigned to Melroe Manufacturing. He further demanded that Lennon turn over to him anything relating to the mechanical patent. He stated that he would use Melroe Manufacturing's patent attorney to prepare the application. He specifically requested that Lennon provide him with the allowed claims of the 503 patent and those claims he expected to be allowed.

18. Louis Keller did not agree with Clifford Melroe's actions relating to the mechanical application, but felt pow-

erless to protest because Clifford was his boss. However, Louis relied on Clifford's representations that Clifford would handle the application, and Louis did not take any further action on the mechanical application. Nor was Louis ever consulted in the course of the preparation of the application. (Tr. Trans. Vol. IV p. 107-113).

19. Thomas Lennon construed Clifford's actions as taking away his authority to file a mechanical application. (Depos. of Thomas Lennon, 1-8-80, p. 81).

20. The following day, on June 1, 1962, Mr. Lennon sent Clifford Melroe a list of the claims in the 503 patent application that had been approved. (Ex. 293). On June 7, 1962, Lennon forwarded to Clifford a copy of the claims in the 503 he expected to be approved. (Ex. 298).

21. The evidence is inconclusive as to how much work Thomas Lennon had done on the mechanical portion of the new patent application as of May 31, 1962. Louis Keller had no specific recollection of what was in the file Clifford observed. (Tr. Trans. Vol. IV p. 106). Clifford testified that he recalled seeing drawings of the Bobcat, but believed that most of them related to design, although there might have been some work on the mechanical patent. (Depos. of Clifford Melroe, 10-5-79 p. 34). Thomas Lennon had little or no recollection of the events surrounding this time, other than he did recall that his authority to file a mechanical patent application was taken from him. He could not recall whether a file had been opened or what documentation he had for a mechanical application. The only file from the Williamson law firm received in evidence which related to the 117 patent was opened on October 25, 1962. There is no indication that Mr. Lennon forwarded anything to Clif-

ford other than the claims of the 503 patent. The only item or document found in the files of the Williamson firm which would be related to the mechanical portion of the new loader was a photograph of the clutch mechanism, (Ex. 655B), which was not forwarded to Clifford.

22. On June 1, 1962, Thomas Lennon sent copies of the design patent application for the new loader to Melroe Manufacturing for execution of signatures. Also sent was an assignment of the patent ownership to Melroe Manufacturing. (Ex. 661). Both the application and assignment were executed by Louis and Cyril Keller and Clifford Melroe on June 21, 1962. (Exs. 282, 283). The documents were sent by Lennon to the Commissioner of Patents on July 24, 1962. (Ex. 289). That patent was filed on July 25, 1962 and subsequently issued as D 195,254 on May 21, 1963. (Ex. 644).

23. John R. Swindler of the law firm Irons, Birch, Swindler & McKie in Washington, D.C., had been Melroe Manufacturing's patent attorney since the mid 1950s. (Depos. of John Swindler, 2-6-80, p. 5).

24. On June 13, 1962, Clifford Melroe first contacted Mr. Swindler by telephone concerning patent protection for the new loader It was also discussed that Warner-Swazey Company had contacted Melroe Manufacturing about buying up its rights to the loader. Swindler was told that the loader was first introduced around the first part of 1962. He requested that Clifford send him a copy of the 503 patent application along with drawings and photographs of the new Bobcat loader so as to determine whether the new loader was covered. Exhibit 67 is Swindler's handwritten notes of the conversation. Exhibit 66 is a typewritten memorandum dated June 13, purportedly regarding a phone conversation

on June 16, 1962. Swindler, at his deposition, thought that the two memos related to two phone conversations, one on the 13th and a second on the 16th. The court finds that both memos relate to the call on the 13th. In the call noted on Exhibit 66, Swindler requested documents from Clifford to be mailed that same day. On June 13, Clifford sent to Swindler, pursuant to their phone conversation on that day, all the information he had received from the Williamson firm, along with pictures and blueprints of the parts for the Bobcat. (Ex. 68).

25. On June 15, 1962, Mr. Swindler called Clifford Melroe and requested authorization to inspect the 503 patent application at the Patent Office. Exhibit 70 is Swindler's notes to the conversation. That same day, Louis Keller sent the authorization. (Ex. 71).

26. On June 27 and 28, 1962, Clifford Melroe went to Washington, D.C. and met with John Swindler concerning further patent protection for the new Bobcat loader. Clifford explained the mechanical inventions to Swindler and Swindler sketched some rough drawings. (Ex. 72). Clifford also informed Swindler that he and Louis Keller were to be the named inventors. There was also a discussion about an assignment of the invention to Melroe Manufacturing.

27. It was Swindler's customary procedure at that time to explain to a patent applicant the law of public use and offer for sale and that an offer for sale could create the problem even if no actual sale or shipment took place. Depos. of John Swindler, 2-6-80, p. 174. Clifford Melroe had had experience in the past with obtaining patent protection on Melroe products. He was aware of the "public use" and "on sale" provisions of 35 U.S.C. §102(b) which bar patent

applications not filed before the critical date. (Depos. of Clifford Melroe, 10-5-79, p. 60).

28. Following his normal procedure, Swindler inquired of Clifford as to when the subject matter of the Bobcat invention had been first offered for sale. (Depos. of Clifford Melroe, 10-5-79, p. 63). Clifford responded that the first machine did not go out until January 4 or 5, 1962. He reported no other sale activity. Swindler felt he had no reason to question the dates Clifford had given him in response to his questions on the subject, and thus relied on this information for determining the critical date. (Depos. of John Swindler, 2-6-80 pp. 126-130).

29. This court has previously found that loaders embodying the elements of the 117 patent was offered for sale out of Melroe's Minneapolis sales office to Midland Cooperative around September 29, 1961 and to the Farmers Union Central Exchange around the first week of October, 1961. (Memorandum of Decision and Order. September 23, 1976, page 58).

30. The M-440 Bobcat loader was the first production model to incorporate the elements of the invention disclosed in the 117 patent. The first commercial production model of the M-440 was delivered to the Farmers Union Central Exchange on January 4, 1962. (Memorandum of Decision and Order. September 23, 1976, finding 91, p. 44).

31. The loader which eventually became the one disclosed in the 117 patent began as a series of preproduction loaders built in the spring and summer of 1961. The 4th prototype was the first preproduction loader to incorporate the elements of the invention disclosed in the 117 patent which eventually were put into the M-440 production model.

This prototype loader was first constructed near the end of the third quarter of 1961. (Memorandum of Decision and Order, September 23, 1976, finding 49, pp. 36-37).

32. The court has found that an M-440 was demonstrated to Midland Cooperative and Farmers Union Central Exchange in the late summer or early fall of 1961. (Prior order, findings 92 and 102, pp. 44 and 45).

33. At the time of the June meeting with Swindler, Clifford Melroe knew of the prototypes which had been developed, since as co-inventor of the 117 patent he was personally involved in their development. (Depos. of Clifford Melroe, 3-11-80 p. 32).

34. He was also aware of demonstrations of the loaders in the summer or fall of 1961. He knew the new machine was being shown to customers who had in the past purchased some of the older model machines and who wanted a new improved machine because the older model was not satisfactory. The customers were shown what had been done to see if it was an acceptable machine to them. (Depos. of Clifford Melroe, 3-11-80, p. 35).

35. It was Clifford Melroe's opinion these demonstrations did not constitute offering the machine for sale. He did not inform John Swindler of these demonstrations. (Depos. of Clifford Melroe, 3-11-80, p. 48).

36. Exhibits 741-755 are sales documents which indicate that a number of M-440 loaders were offered for sale to Midland Cooperative and Farmers Union Central Exchange as early as September 29, 1961. These records were maintained in the ordinary course of Melroe's business at its Minneapolis sales office. The court relied on these docu-

ments as circumstantial evidence of an offer for sale in its determination that the 117 patent was invalid.

37. Clifford Melroe had not examined the company's sales records, and was not aware of the documents when he informed Swindler that the machine first came out in January, 1962. (Depos. of Clifford Melroe, 3-11-80, p. 35).

38. When Clifford Melroe was seeking patent protection on the loader, he was acting in furtherance and in the course of his employment as president of Melroe Manufacturing Company.

39. On July 2, 1962, John Swindler wrote to Clifford Melroe, advising him that in consideration of the complete redesign of the loader construction and the important features included therein, a patent application for the new loader should be filed. Swindler stated that as discussed at the June meeting, his firm was proceeding with obtaining patent application drawings and they would prepare and submit to Clifford a patent application for the new loader. He also confirmed that the inventors would be identified as Clifford E. Melroe and Louis J. Keller and that an assignment would be forwarded with the application to assign it to Melroe Manufacturing. (Ex. 73).

40. At the June meeting, Clifford Melroe and John Swindler had discussed drafting an agreement to be signed by all the Melroe Company employees which would obligate them to assign to the company any inventions they developed during their employment. On July 5, 1962, Mr. Swindler sent Clifford copies of the agreement (Ex. 58). Melroe Manufacturing never utilized the agreements.

41. John Swindler corresponded regularly with the Melroe brothers on the progress of the patent application. On

August 30, 1962, he sent copies of four sheets of pencil drawings reflecting the new patent. (Ex. 715). On October 11, 1962, Mr. Swindler sent the completed patent application to Clifford Melroe for signatures. He also sent an assignment of the patent, assigning it to the Melroe Company, to be signed by Louis and Clifford at the same time they were to sign the application. (Ex. 84).

42. Louis Keller and Clifford Melroe signed the patent application on October 19, 1962 and returned it to Swindler on October 23, 1962. Swindler filed it with informal pencil drawings, as was his customary practice, with the Patent Office on October 23, 1962. He later filed formal inked drawings. (Ex. 86).

43. When Swindler filed the patent in October, 1962, he believed he was working against a critical bar date of around the first of January, 1963, based upon what Clifford had told him. (Depos. of John Swindler, 2-6-80, p. 130). An experienced patent attorney could have prepared and filed the 117 patent application within three or four weeks after receiving authorization to do so and having the necessary information. (Testimony of Richard O. Bartz, Tr. Trans. Vol. IV, p. 139-140).

44. On November 5, 1962, Mr. Swindler wrote to Clifford Melroe advising him that he had not yet received an executed copy of the assignment. (Ex. 85).

45. The assignment was never executed. Clifford Melroe could recall discussing it with Louis Keller, but could not recall why it was never signed. (Depos. of Clifford Melroe, 3-11-80, pp. 29-31). Louis could not recall Clifford ever asking him to sign an assignment. (Tr. Trans. Vol. IV,

p. 69). Clifford did not assign his rights in the 117 patent to the Melroe Company until April 7, 1966, following a specific request by Swindler to do so in order to simplify the naming of parties in the Universal suit. (Ex. 108 and unmarked letter of April 5, 1966, contained in Swindler's patent file, Ex. 65).

46. The patent on the Bobcat loader on the application filed October 23, 1962, was issued as patent 3,231,117 by the Patent Office on January 25, 1966.

47. On October 1, 1963, Louis and Cyril Keller entered into an agreement with the Melroe Manufacturing Company which superceded their 1959 agreement. Pursuant to the agreement, the Kellers granted to Melroe the exclusive right and license to make or sell machines embodying the inventions disclosed and claimed in a number of patents, including the application for the 117 patent. In return, Melroe agreed to pay the Kellers a predetermined royalty for each such device sold. (Ex. 553).

48. The Melroe Manufacturing Company paid the Kellers royalties under the 1963 agreement until August, 1969.

49. Prior to February, 1969, the stockholders group of Melroe Manufacturing were concerned with the rapid growth of the company and with securing additional funds for future growth. The group contemplated a public issue and the question arose whether it would be more advantageous to go a public issue route or sell the company.

50. In February, 1969, Roger Melroe had a casual contact with a representative of Clark Equipment Company in Chicago where there was an initial conversation concerning Melroe Manufacturing's financial situation.

51. On March 31, 1969, the Melroe Manufacturing Company, a North Dakota corporation, merged with the Melroe Company, a Delaware corporation. Pursuant to the articles and agreement of merger, the surviving Delaware corporation assumed all the debts, liabilities and obligations of the old corporation. (Ex. 717, tab 24).

52. Communication between Clark and Melroe continued over the following months leading to negotiations concerning Clark's acquisition of Melroe's assets. Exhibit 717 is a compilation of documents prepared by Clark, covering the transactions leading up to its acquisition of Melroe.

53. On June 30, 1969, Clark announced the forthcoming acquisition of the Melroe Company.

54. On August 11, 1969, Clark and Melroe entered into a written Agreement and Plan of Reorganization in which Melroe, in exchange solely for voting common stock of Clark, agreed to convey to Clark on the closing date of August 15, 1969, all of Melroe's assets except as specifically excluded in the Agreement and Clark agreed to assume all the liabilities, obligations and covenants of Melroe, except as specifically excluded in the Agreement. (Ex. 207, contained in Ex. 717, tab 17).

55. In §1.4 of the Agreement, Melroe represented and warranted that the balance sheets reflecting Melroe's financial status, previously given to Clark, reflected all known claims against, and all debts and known liabilities of Melroe, fixed and contingent. Melroe also represented that to its best knowledge, no fact or condition existed or was contemplated which might cause a material adverse change in the future.

56. In §1.8 of the Agreement, Melroe represented and warranted that Schedule C contained a listing of patents owned by or licensed by Melroe and that to the best knowledge of Melroe, there were no claims or demands of any other person pertaining thereto. Kellers' interest in the 117 was shown as an interest licensed to Melroe.

57. In §1.21 of the Agreement, Melroe represented and warranted that neither the financial statements referred to in §1.4 nor the Agreement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements contained therein not misleading.

58. Melroe also warranted and represented in §1.14 of the Agreement that other than that listed in Schedule E, to the best knowledge of Melroe, it was not threatened with any legal action or proceedings.

59. Section 3.1 of the Agreement reads in part as follows:

> §3.1 *Conveyances and Expenses.* Melroe agrees to convey, assign and transfer to Clark and Clark agrees to acquire from Melroe on the Closing Date all of the properties and assets of Melroe of every kind and description (except those assets to be retained by Melroe pursuant to the next paragraph of this §3.1 and the records to be retained by Melroe referred to in §4.1, including but not limited to, cash, moneys on deposit and securities, all the goodwill of the business carried on by Melroe and all of its customers, lists, credit and sales records, and all other interests in which it has a conveyable or assignable interest on the Closing Date,

> in consideration of (1) the delivery of 475,000 shares of Common Stock of Clark on the Closing Date, and (2) the assumption by Clark of all liabilities, obligations and covenants of Melroe on the Closing Date except (i) any liabilities arising out of the breach of any representation or warranty of Melroe contained herein or the failure of Melroe to perform any of its agreements contained herein, (ii) any liabilities not disclosed due to any misrepresentation by Melroe herein and (iii) any liabilities referred to in the next paragraph of this §3.1.

The next paragraph provided that after the closing date, Melroe would retain a sum not exceeding $50,000.00 in cash to be used to pay the incidental expenses connected with Melroe's acquisition by Clark.

60. Under the terms of the Agreement, on the closing date Melroe would change its corporate name to a name not including the name "Melroe," and would transfer to Clark the right to the use of its corporate name.

61. Furthermore, pursuant to the Agreement, as soon as practicable after the closing date, Melroe would effect its dissolution and complete its liquidation by distributing to its stockholders the 475,000 shares of common stock of Clark delivered to Melroe.

62. The Agreement by its terms is to be construed in accordance with the laws of the State of North Dakota.

63. In Schedule C of the Agreement, Melroe disclosed the pending lawsuit asserted against it by Owatonna concerning the 503, 117 and 254 patents. Also disclosed was

the prior litigation initiated by Melroe against Universal which in 1967 resulted in a consent judgment and Universal's taking a license on the three patents.

64. There was no disclosure of any possible assertion of tort liability against Melroe for late filing of the 117 patent application. Melroe had no knowledge of such a claim and had no reason to know that such a claim would be asserted.

65. On August 15, 1969, the closing date, the Clark shares were delivered to Melroe. Shortly thereafter the shares were reissued to the former Melroe stockholders.

66. Following the acquisition, the Melroe Company changed its name to Gwinner Holding Company. Gwinner Holding Company existed as a corporate shell or dormant corporation with no employees, no business function, and holding as assets only the $50,000 provided for in the agreement for windup expenses. In August, 1973, the authority of Gwinner Holding Company to transact business in North Dakota was revoked by the Secretary of State for failure to file a required annual report. (Ex. 733).

67. The physical plant at Gwinner became known as the Melroe Division of Clark Equipment. It continued to manufacture and sell the same line of products as it had as Melroe Company.

68. With one or two exceptions, the corporate officers of Melroe Company became officers of the Melroe Division of Clark Equipment.

69. Most of the former Melroe employees became employees of the Melroe Division and they were allowed to continue their pension fund.

70. For accounting purposes, the transaction was treated as a pooling of interests. (Ex. 717, tab 54).

71. Clark continued to pay the Kellers royalties under the 1963 Melroe agreement. (Testimony of Kenneth Witt, Tr. Trans. Vol. VIII p. 34).

72. In May, 1971, the Kellers and Clark Equipment entered into a license agreement superceding the 1963 agreement and which recognized the Kellers as joint owners of the 503, 117 and 254 patents. Pursuant to that agreement, the Kellers granted to Clark an exclusive right and license to make, use and sell. with the right to grant sublicenses to third persons to make, use and sell, vehicles embodying the inventions disclosed and claimed in the 503, 117 or 254 patents. Clark agreed to pay the Kellers a royalty of $15.00 for each Licensed Device made and sold by Clark in a country where there is a licensed patent and $10.00 for each Licensed Device made and sold by a sublicensee in a country where there is a licensed patent. License Device was defined as vehicles embodying the inventions or any thereof disclosed and claimed in the licensed patents. (Ex. 551).

73. Royalties were paid to the Kellers by Clark under the new agreement until approximately the second quarter of 1972. Thereafter royalties were paid into an escrow account for a period of time and then discontinued altogether. On October 10, 1972, Clark filed this declaratory judgment action against the Kellers.

74. Since January, 1972, Clark has manufactured or sold in the United States the following models of hydrostatic skid steer loaders: Models 174, 520, 530, 533, 620, 630, 631, 632, 700, 720, 721 722, 730, 731, 732, 825, 833,

970, 974, 975, 1074, 1075 and 1080. All these models embody the invention disclosed in claim 9 of the 117 patent. (Tr. Trans. Vol. III p. 133), reading from answers to Keller's Interrogatories, Set 6, Vol. VI pp. 132-144, testimony of John Barnes).

75. Since January, 1972, Clark has manufactured or sold in the United States the following models of clutch driven skid steer loaders: Models 310, 313, 371, 600, 610, 611. All these models embody the invention disclosed in claims 1-6, 15, 18 as well as claim 9 of the 117 patent.

76. Exhibits 500-518 and 522-550 are parts manuals for those Clark skid steer loaders.

77. Exhibit 582 is a written transcript of a tape used by Clark in training distributors and dealers about competitors' skid steer loaders. Exhibits 584 through 590 are copies of "Confidentially Speaking," and "Kopycat Konfessions," publications put out by Clark which contain the specifications and information on competitors' machines, comparing them to the Bobcat.

78. Claim 9 of the 117 patent reads as follows:

> A tractor vehicle for use in handling material comprising an elongated body having an engine space at the rear end thereof and a forward space for the vehicle operator's legs at the front end thereof with a seat for the operator mounted on said body intermediate and at an elevation above said engine space and said forward space, an engine mounted in said engine space, spaced wheels rotatably mounted on opposite sides of the body, means for connecting said engine to selectively drive said wheels in forward or

reverse directions to propel and maneuver said vehicle, a stanchion projecting upwardly from adjacent the rear end of said body on each side of said engine space and providing at the upper end thereof a pivotal mounting, a lifting arm connected to said pivotal mounting of each stanchion with each arm extending forwardly along a side of said body past said operator's seat and downwardly adjacent the front end of said body, a material handling member mounted on the forward ends of said arms, and means connected to each arm to make raise arms and the material handling member mounted thereon in connection with use of the vehicle.

79. Several of Clark's competitors manufacture or sell skid steer loaders which incorporate all the elements recited in Claim 9 of the 117 patent, which loaders would have infringed upon the patent if the patent application had been timely filed. Some of the companies which sell skid steer loaders are provided the loaders by other companies.

80. Claim 9 of the 117 patent, if the patent application had been timely filed, would be infringed upon by the following skid steer loaders manufactured or sold presently or in the past by companies other than Clark:

a. The Case models 1816 (Ex. 557), 1830 (Ex. 558), 1845 (Ex. 588A), and any other similar models of loaders manufactured or sold by J. I. Case which have component parts arranged so as to literally read upon claim 9 of the 117 patent.

b. The Owatonna models 310 (Ex. 572), 440 (Ex. 573), 1700 (Ex. 574) and any other similar models manufactured or sold by Owatonna Manufacturing which have component parts arranged so as to literally read upon claim 9 of the 117 patent. This also includes comparable machines manufactured by Owatonna for John Deere.

c. The Gehl models 3000 (Ex. 562), 4500 (Ex. 563) and any other similar models of loader manufactured or sold by the Gehl Company which have component parts arranged so as to literally read upon claim 9 of the 117 patent.

d. The Rounder model L-600 (Ex. 576), L-700 (Ex. 577), L-1000 (Ex. 575), and any other similar models of loader manufactured or sold by Oakes Manufacturing, Inc. which have component parts arranged so as to literally read upon claim 9 of the 117 patent. This includes comparable models manufactured by Oakes Manufacturing for the Gehl Company.

e. The various models of the Little Eric and Big Eric (Exs. 588B and 560) manufactured and sold by Erickson Corporation. This includes comparable machines manufactured by Erickson for Ford. Illustrative of such a Ford machine is the CL-40 (Ex. 561).

f. The Mitey-Mac models 8C, 9C, 12C, 14C and 20C manufactured or sold by Hydra Mac. The model 12C is illustrated in Ex. 568. This would include comparable models manufactured by Hydra Mac for International Harvester and Gehl. Not included is the model 6C, a loader with one lift arm manufactured by Hydra Mac.

g. The Thomas 700 (Ex. 580), 173 (Ex. 579), and any other similar models of loader manufactured or sold by Thomas Equipment which have component parts arranged so as to literally read upon claim 9 of the 117 patent.

81. Evidence offered on other competitive loaders, such as the Lawman, Davis, New Holland, and Massey Ferguson, was insufficient for the court to make a determination whether such loaders would infringe on the 117 patent, if the patent was valid.

82. Had the 117 patent application been timely filed, the patent would expire on January 25, 1983.

Conclusions of Law

[18] The court concludes the Kellers have established by a preponderance of the evidence that Clifford Melroe in the course of his employment as President of Melroe Manufacturing and on behalf of Melroe Manufacturing, took upon himself to file the 117 patent and thereby assumed a duty toward Louis Keller to exercise reasonable care in doing so; that by failing to inform Melroe's patent attorney of demonstrations of the loader of which he was aware, and sales activities relating to the loader which he should have discovered and which he could have discovered with reasonable inquiry, he failed to exercise reasonable care required by the circumstances, causing the patent application to be filed late, resulting in damages sustained by the Kellers.

The court further concludes the Kellers have established by a preponderance of the evidence that when Clark

acquired the assets of Melroe it contractually assumed Melore's liability to the Kellers, and further, notwithstanding the agreement, the transaction in which Clark acquired the assets constituted a de facto merger by which Clark assumed the obligation as a matter of law.

Discussion of the Facts and Application of the Law

The Kellers claim that Melroe Company is liable for the late filing of the 117 patent because it was either negligent in the prosecution of the application, or breached a contract with Louis Keller with respect to the prosecution of the patent. Additionally it is alleged that Clark is responsible for the liability which the Kellers claim against the Melroe Company because Clark assumed the liability contractually and also as a matter of law is liable as the successor in interest by reason of a de facto merger.

Clark's defense is that Melroe Company was not negligent and did not breach any contract. Clark further asserts that if Melroe Company is found to be liable to the Kellers, Clark did not assume such liabilities either contractually or by law when it acquired the Melroe Company. It also asserts its 1971 licensing agreement with Kellers bars any claim against Clark and it reasserts its statute of limitations defense.

A. Statute of Limitations Defense

In reasserting its statute of limitations defense, Clark requests this court to reconsider its order of August 16, 1979 in light of evidence adduced at trial. This court held in its August order that the Kellers' cause of action accrued no earlier than 1972 when Clark stopped paying royalties. Before that time the Kellers had suffered no damages and

absent damages, no cause of action existed. Keller v. Clark Equipment Co., 474 F.Supp. 966, 969, 206 USPQ 478 (D.N.D. 1979).

Clark now argues that once the omission occurred with respect to the timely filing of the 117 patent application, Louis Keller was damaged in losing his right to enforce his patent rights as against third parties. However, the two companies that were infringing in the patent prior to 1972, J. I. Case and Owatanna, in the midst of litigation, agreed to the validity of the patent and took license agreements. Therefore, the Kellers suffered no such damages until 1972.

Clark also apparently argues that since the Kellers knew that the validity of the 117 patent was being questioned as early as 1966 in the Owatanna and Universal law suits, they should have asserted their late filing claim at that time. This reasoning overlooks the fact that neither of these cases resulted in a judgment declaring the patent to be invalid. Rather, Clark took over the defense of both of these cases when it acquired Melroe and the cases were settled in favor of the Kellers. Clark's attorney testified that he believed at that time that the patent was valid.

The court reaffirms its prior holding that no cause of action for the late filing accrued before 1972, and thus the claim is not barred by the statute of limitations.

B. The Clark-Keller Agreement as a Bar to the Action

Clark claims that the 1971 licensing agreement between it and the Kellers bars any action for the late filing. It relies on the provision that obligates Clark to pay royalties only on valid patents. It relies on the integration clause of the agreement which bars modification other than by written instrument. It relies on paragraph 13, which provides:

> 13. LICENSEE shall not during or after termination of this agreement be estopped to contest the validity or scope of any patent coming under the terms hereof, but shall stand in the position of one who has never entered into an agreement with respect to such patents.

Its arguments are misplaced. If Clark is liable to Keller in damages for the late filing, the liability will arise from tort or a separate contract and not from the 1971 Clark-Keller licensing agreement. That agreement is not helpful except as an aid in the measurement of damages. There is nothing in the licensing agreement which will prevent the Kellers from pursuing their late filing claim on its merits.

C. Melroe's Liability for Late Filing of the Patent

1. Negligence.

In Count IV of their amended complaint, the Kellers allege that Melroe assumed control of the preparation, filing and prosecution of the 117 patent application, after Louis Keller had initiated consideration and evaluation of the patent by his patent attorneys, thereby imposing a duty upon Melroe to diligently prepare and timely file the application. It is further alleged that Melroe breached that duty by negligently failing to file the application on time.

Under applicable North Dakota law, actionable negligence is the existence of a duty or obligation on the part of one to protect another from injury, failure to perform or discharge that duty, and resulting injury to such other proximately caused by the breach of duty. Brauer v. James J. Igoe & Sons Construction, 186 N.W.2d 459,468 (N.D. 1971); McDermott v. Sway, 78 N.D. 51, 50 N.W.2d

235,239 (1951). There can be no actionable negligence where there is no duty. Mikkelson v. Risovi, 141 N.W.2d 150,152 (N.D. 1966); Larson v. Meyer, 135 N.W.2d 145, 154 (N.D. 1965); Belt v. City of Grand Forks, 68 N.W.2d 114,119 (1955).

Clark contends that Melroe Manufacturing owed Louis Keller no duty to file the 117 patent application. For this contention it places principal reliance on N.D.Cent.Code §34-03-11 which provides as follows:

> Everything which an employee acquires by virtue of his employment, whether acquired lawfully or unlawfully or during or after the expiration of the term of his employment, except any compensation which is due him from his employer, belongs to the employer.

Clark argues that since Louis Keller and Clifford Melroe were full time employees of Melroe working in the area of loader development and used Melroe's materials, equipment and facilities at the time they developed the loader, the invention belonged to Melroe so that Louis Keller never had any interest in the patent application which Clifford would have a duty to protect.

[19] There are no cases construing the statute. There is, however, a general body of common law which governs the rights between an employer and employee as it relates to inventions and which may aid the court in discovering what the law is in North Dakota. As a general rule the law does not regard the ordinary contract of employment as including a right on the part of the employer to the products of the inventive genius of the employee. Rather, it depends upon the terms of the particular contract of employment. Annot. 16 A.L.R. 1177 (1922).

[20] Where an employee makes and reduces to practice an invention on his employer's time, using his employer's tools and the services of other employees, the employer is the recipient of an implied, non-exclusive royalty free license, or "shop right." See Hobbs v. United States, 376 F.2d 488, 494, 153 USPQ 378, (5th Cir. 1967); A & C Engineering Company v. Atherholt, 355 Mich. 677, 95 N.W.2d 871, 875, 121 USPQ 235 (1959); Barlow & Seelig Mfg. Co. v. Patch, 232 Wis. 220, 286 N.W. 577, 42 USPQ 211 (1939); Annot., 61 A.L.R.2d 356 (1958).

> This is an application of equitable principles. Since the servant uses his master's time, facilities and materials to attain a concrete result, the latter is in equity entitled to use that which embodies his own property and to duplicate it as often as he may find occasion to employ similar appliances in his business. But the employer in such a case has no equity to demand a conveyance of the invention, which is the original conception of the employee alone, in which the employer had no part. This remains the property of him who conceived it, together with the right conferred by the patent, to exclude all others than the employer from the accruing benefits.

U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 188-89, 17 USPQ 154, 158-159 (1933).

[21] Where, however, the person is employed for the express purpose of using his inventive faculty for his employer to make an invention, and he succeeds in accomplishing the assigned task during the period of employment, the employer is the equitable owner of the invention and the

employee is obligated, by way of implied contract, to assign to the employer any patent that may be obtained on the invention. This is because the employee has only produced that which he was employed to invent. Melin v. United States, 478 F.2d 1210,1213, 178 USPQ 364 (Ct.Cl. 1973). See Standard Parts Co. v. Peck, 264 U.S. 52 (1924); Barlow & Seelig Mfg. Co. v. Patch, supra; Annot., 153 A.L.R. 983 (1944); Annot., 85 A.L.R. 1512 (1933); Annot., 44 A.L.R. 593 (1926); Annot., 32 A.L.R. 1039 (1924). See generally 53 Am.Jr.2d Master and Servant §§111-120 (1970).

[22] Thus, it is clear that the respective rights and obligations of employer and employee relating to the employee's invention, arise from the contract of employment. Bandag, Incorporated v. Morenings, 259 Iowa 998, 146 N.W.2d 916,920, 152 USPQ 353 (1966).

Although there was no written employment contract, there is evidence that Louis Keller was hired for his inventive abilities and that absent other circumstances there would have been an implied contractual obligation for him to assign to Melroe his ownership interest in the patent.

Clark argues that there is an inference that Clifford Melroe presented an assignment of the 117 patent to Louis Keller and that he refused to sign it, demonstrating an intent on Clifford's part to exercise for Melroe full ownership over the patent. This inference is said to arise from the fact that John Swindler sent with the unexecuted patent application, an assignment. But there is no evidence to support any inference that Louis was asked to and refused to execute the assignment. Louis recalled no such incident. And the person who reasonably would be expected to have recalled it, Clif-

ford Melroe, did not know why the assignment was not signed.

[23] Clark places importance on the fact that John Swindler prepared a contract to be signed by all Melroe employees by which they would agree to assign all future patent rights arising from their employment. Any particular relevance this may have toward the issue of ownership of the 117 patent is outweighed by the fact that the contract was never signed. Thus, it supports no inference of any intent on the part of Melroe to claim sole ownership in inventions developed by employees, but instead the fact that it was recommended by legal counsel and not done rebuts the inference.

[24] The fact that the owners of the 254 patent assigned their rights to Melroe could, under ordinary circumstances, be evidence of an agreement to assign all inventions. See e.g., Magnetic Mfg. Co. v. Pings Magnetic Separator Co., 16 F.2d 739, 741 (7th Cir. 1926). This would perhaps be applicable had Melroe demanded an assignment of the 117 patent and Louis Keller refused. But that is not the case here. Furthermore, Clifford Melroe did not assign his own interest in the patent until requested by Swindler to do so in connection with the Universal law suit in 1966. It cannot be inferred from this action that Melroe Manufacturing intended to claim sole ownership over the 117 patent back in 1962.

[25] In addition, to accept Clark's contention that Louis Keller had no interest in the 117 invention when he sought patent protection on it, would require the court to overlook the fact that in October, 1963, Melroe agreed to pay royalties to the Kellers on the 117 patent application in exchange

for an exclusive license. This is no more than a year after the time Clark would have the court infer that Louis refused to execute the assignment. It is reasonable to infer from Melroe's agreement to pay royalties that it recognized Louis Keller's ownership interest in the patent as a co-inventor, and never claimed sole ownership. Furthermore, the 1971 agreement between Clark and the Kellers expressly recognizes Louis Keller's co-ownership in the 117 patent. Notwithstanding any implied right an employer may have to an employee's invention, the parties may contract as they wish and an employer may contract away an implied right which would come into existence is the parties had remained silent. Aero Bolt & Screw Company of California v. Iaia, 180 Cal.App.2d 728, 5 Cal.Rptr. 53,60, 125 USPQ 545 (Dist. Ct.App. 1960). Thus, when an owner of a patent and his employer have contracted on a royalty basis, the question of the employer's implied rights to the patent is excluded. Id. see Brown v. L. V. Marks & Sons Co., 64 F.Supp. 352, 365, 68 USPQ 365. 367-368 (E.D.Ky. 1946).

Pursuant to the royalty license, Melroe first and Clark later paid the Kellers royalties on the 117 patent for some nine years. This is quite inconsistent with Clark's contention that the Kellers never had an interest in the 117 patent. The court concludes that Louis Keller, when attempting to seek patent protection on the invention which resulted in the 117 patent, possessed a protectable interest in it.

[26] The interest of Kellers, standing alone, does not establish a duty upon Clifford Melroe to file the 117 patent application. When an invention is made by two or more persons jointly, they must apply for the patent jointly and each sign the application. 35 U.S.C. §116. Notwithstanding

Louis Keller's interest in the patent as a co-inventor, the law would ordinarily impose no duty upon Clifford Melroe, the other co-inventor to file the application to protect that interest.[1]

However, one may assume a duty where a duty would otherwise not lie, by voluntarily performing an affirmative act. Clairmont v. State Bank of Burleigh Cty. Trust, 295 N.W.2d 154,158 (N.D. 1980); Pirocchi v. Liberty Mutual Insurance Co., 365 F.Supp. 277,281 (E.D.Pa. 1973). See generally, Prosser, Law of Torts §56 (4th Ed. 1971). "One who assumes a duty, whether gratuitously or for consideration, must exercise reasonable care in the performance of that duty; his failure to exercise reasonable care subjects him to liability for damage proximately caused thereby." Weiss v. Bellamy, 278 N.W.2d 119, 121-22 (N.D. 1979).

[27] Louis Keller, as a co-inventor, had taken steps to make application for the 117 patent. Clifford Melroe, on behalf of Melroe Manufacturing represented to Louis that Melroe would use its own attorney to proceed on the patent application. Clifford Melroe then took affirmative steps to secure patent protection. Louis Keller relied on Clifford's efforts and not daring to interfere with those efforts did not take any further action on the patent application. Under the doctrine stated in Clairmont v. State Bank of Burleigh Cty. Trust, supra, and Weiss v. Bellamy, supra, this set of circumstances created a duty upon Clifford Melroe to exercise reasonable care in filing the application so as to protect Louis Keller's interests in the invention.

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[1]The Kellers in their brief argue that the 1959 agreement between Melroe and the Kellers, see factual finding 3, supra, created a contractual obligation on the part of Melroe to file the patent. The words of the contract do not reasonably lend themselves to such an interpretation. The agreement merely gave Melroe an option to pursue patent protection on the loader which was the subject of that agreement.

The term "negligence" is relative. Its application depends upon the situation of the parties and the degree of care which circumstances reasonably impose. Zerr v. Sommer, 179 N.W.2d 330,333 (N.D. 1970). It is the "failure of a person to observe, for the protection of another person's interests, that degree of care, protection, and vigilance justly demanded by the circumstances. * * *" Id. Consideration is given to the person's intelligence and experience in determining whether reasonable care has been exercised. Sheets v. Pendergast, 106 N.W.2d 1,4 (N.D. 1960).

[28] Section 102(b) of Title 35, U.S.C., provides that a person shall not be entitled to a patent if the invention was in the public use or on sale in this country more than one year prior to the date of the application for the patent. Failure to abide by the §102(b) requirement will result in the destruction of the inventor's rights in what would otherwise be a valuable patent.

Clifford Melroe knew from his prior experience with patent applications about the §102(b) requirements and that failing to meet them would invalidate the patent. Furthermore, when he met with John Swindler, the importance of the statutory bar date was explained to him and that an offer for sale, as distinguished from an actual delivery, would be sufficient to start the running of the one year period.

[29] The court concludes that reasonable care in filing a patent application includes exercising reasonable care in complying with the provisions of §102(b). For a person with the knowledge and experience which Clifford Melroe possessed, this would include exercising reasonable precaution in gathering the necessary information and fully disclosing this information to the patent attorney.

At the June 23 meeting John Swindler asked Clifford Melroe when the first offer for sale took place. Clifford told him the first such activity was on the 4th or 5th of January, 1962. Swindler relied on that information for determining the critical date. Clifford knew, however, that the machine had been demonstrated to previous customers in the fall of 1961. He did not consider such demonstrations to constitute offers for sale and never mentioned the demonstrations to Swindler. Exercising reasonable care, however, in matters of this importance would require that Clifford Melroe disclose this knowledge to his patent attorney who could assess the significance of the demonstrations.

[30] Exhibits 741-755 are sales documents which would put one on notice that M-440 loaders were offered for sale to Midland Cooperatives as early as September 29, 1961. These were records maintained in the ordinary course of Melroe's business at its sales office in Minneapolis. Clifford Melroe as president of the company and as one of the developers of the loader knew that the M-440 was a machine incorporating all the essential elements of the invention on which Keller was seeking patent protection. He also knew that such a machine was in existence at the time the offers were made. Clifford never saw these documents and thus never disclosed the information to Swindler. As president of Melroe, however, he had access to the sales records maintained in the Minneapolis sales office. In light of the extreme importance of filing the application within the statutory time, and of his having taken from Keller the right to file the patent application, reasonable care would require that Clifford Melroe make such inquiry as would be necessary to inform himself and Swindler of the company's sales activi-

ties. A simple inquiry at the sales office would have placed a reasonable person in Melroe's position and responsibility on notice of the sales activities. Failure to make that inquiry was negligence. Since Clifford Melroe was acting in furtherance of, and in the scope of his employment with Melroe Manufacturing, his negligence is attributable to his employer.

This court has already decided that but for the late filing, the 117 patent would be valid. In light of Richard O. Bartz's testimony, (Tr. Trans. Vol. IV, p. 155), as to the time it would take an experienced patent attorney to prepare and file the patent, had Clifford Melroe exercised reasonable care and examined the documents available to him and informed Swindler of the matter when they met in June, 1963, Swindler would have had sufficient time to file the patent application before the statutory bar date of September 29, 1963. Clearly, Clifford Melroe's negligence was the proximate cause of economic injury to the Kellers resulting from the 117 patent's invalidity.

2. Breach of Contract

Court VI of the Keller's amended complaint alleges:

> During May, 1962, and not later than the early part of June, 1962, Melroe, through its President, Clifford Melroe, entered into an agreement with Louis Keller whereby Melroe's, Clark's predecessor in interest, would prepare and file, through its attorneys, a U.S. patent application based upon the '117 patent subject matter. In accordance with the agreement, Louis Keller agreed to refrain from exercising his legal right to file a patent application on the same subject matter; and Louis Keller has so refrained, in reliance on the agreement, all to his detriment.

It further alleges that Melroe failed to discharge its obligations under the agreement.

The Kellers in their post trial briefs focused but little attention upon this claim for relief. The theory appears to be that when Clifford Melroe undertook to file the 117 patent, an implied contract arose requiring the application be timely filed.

"A contract is an agreement which creates an obligation. Its essentials are competent parties, subject matter, a legal consideration, mutuality of agreement, and mutuality of obligation." Ulledalen v. United States Fire Ins. Co., 74 N.D. 589, 23 N.W.2d 856-867 (1946). A contract can be either expressed or implied. An express contract is one the terms of which are stated in words. An implied contract is one the existence and terms of which are manifested by conduct. N.D.Cent.Code §9-06-01. See 17 C.J.S. Contracts §4 (1963).

In both situations a contract exists between the parties, the only difference being in the character of the evidence. Bismarck Hospital Association v. Burleigh County, 146 N.W.2d 887, 892 (N.D. 1966). For an implied contract to exist, it must be based on the mutual intention of the parties. Id. Clifford Melroe did admit that when he undertook the responsibility of filing the 117 patent application, there was some understanding between himself and Louis Keller, but could not recall exactly what it was. (Depos. of Clifford Melroe, 10-5-79 pp. 56-57). Louis Keller, on the other hand, testified that he did not agree with Clifford's action but reluctantly acquiesced. The court concludes that the evidence is inconclusive as to whether a contractual relationship, i.e., mutuality of agreement, existed but on the basis of the evidence, it is clear that under the circumstances Clifford Mel-

roe failed in his duty to exercise reasonable care in filing the patent which duty arose out of tort as a matter of law, and not from a contractual agreement between the parties. His breach of that duty was an act of misfeasance sounding in tort, not contract.

D. Clark's Liability for Melroe's Negligence

The remaining issues to be discussed on the liability question is Clark's role as successor to Melroe and its liability for Melroe's negligence. The evidence discloses that in 1969, Clark purchased the assets of Melroe Company. The general rule is that where one company sells or otherwise transfers all its assets to another company, the purchasing company is not liable for the debts and liabilities of the transferor. J. F. Anderson Lumber Co. v. Myers, 296 Minn. 33, 206 N.W.2d 365,368 (1973). To that general rule, however, the following exceptions have developed:

> * * * (1) where the purchaser expressly or impliedly agrees to assume such debts; (2) where the transaction amounts to a consolidation or merger of the corporation; (3) where the purchasing corporation is merely a continuation of the selling corporation; and (4) where the transaction is entered into fraudulently in order to escape liability for such debts.

Id. at 368-69. Although the North Dakota Supreme Court has not addressed the matter, the majority of courts which have, have adopted the above stated rule and its exceptions. See e.g., Acheson v. Falstaff Brewing Corp., 523 F.2d 1327, 1329-30 (9th Cir. 1975); Armour-Dial, Inc. v. Alkar Engineering Corp., 469 F.Supp. 1198, 1201 (E.D.Wis. 1979);

Goldstein v. Gardner, 444 F.Supp. 581, 583 (N.D. Ill. 1978); Araserv, Inc. v. Bay State Harness Horse Racing & Breeding Ass'n, Inc., 437 F.Supp. 1083, 1090 (D. Mass. 1977); Menacho v. Adamson United Co., 420 F.Supp. 128, 141 (D.N.J. 1976); Kloberdanz v. Joy Manufacturing Company, 288 F.Supp. 817,820 (D.Colo. 1968); Turnver v. Bituminous Cas. Co., 397 Mich. 406, 244 N.W.2d 873, 878 n.3 (1976); Arthur Elevator Co. v. Grove, 236 N.W.2d 383,391 (Iowa 1975). See generally Annot., 49 A.L.R. 3d 881 (1973). The court anticipates that this also represents the law in North Dakota.

1. The Purchase of Assets Agreement.

In the "whereas" portion of the agreement, Clark agreed to "assume all the liabilities, obligations and covenants of Melroe, except *specifically excluded herein*, all as hereinafter provided." (Emphasis added). It is not argued that the term "all the liabilities" does not include tort liabilities, and the court concludes that a proper interpretation is that tort liabilities are assumed. See Geiger v. Sanitary Farm Dairies, 146 Minn. 235, 178 N.W. 501,503 (1920).

Clark contends, however, that the liabilities which Clark assumed are limited to those existing on the closing date and that since the court has held that the tort liability did not accrue until at least 1972, it was not assumed.

Section 3.2 of the Agreement provided that on the closing date, Clark would deliver to Melroe a written assumption of Melroe's liabilities as provided in the first paragraph of Section 3.1, the writing to be in substantially the form set forth in an exhibit attached to the Agreement. Such an assumption was delivered (Ex. 717, tab 52) and reads in part as follows:

* * * Clark Equipment Company * * *

> hereby assumes and agrees to pay or cause to be paid or otherwise discharge or cause to be discharged to the extent that they are existing and outstanding on the date hereof, as they become due and payable, such liabilities of Melroe Company * * * as are to be assumed by Clark Equipment Company under the terms of an Agreement and Plan of Reorganization dated as of August 11, 1969 between Clark Equipment Company and Melroe Company * * *.

This provision must be construed in the context of the whole agreement. To determine what Clark considered to be liabilities existing and outstanding on the date of closing, it is of some aid to look at the type of liabilities Clark did assume. Schedule C of the Agreement lists the Owatanna litigation which included a damages claim arising from the antitrust laws. At the time of the closing, no liability arising from that litigation had been determined. Clark assumed the defense of the action, and it appears clear that if Owatanna had prevailed, Clark would have assumed the liability. Listed in Schedule E are other such contingent liabilities which Clark assumed.

The court has previously held that for purposes of the running of the statute of limitations no cause of action existed in 1969. The statute does not begin to run until a cause of action accrues. For a tort action to accrue it must be actionable i.e. both wrong and damage must exist. The contingent liability based on Melroe's duty to Keller and its breach of that duty existed on the date of the closing of Clark's purchase of Melroe Manufacturing, but was obscured by the fact that a patent had in fact been issued and

Keller was receiving a royalty from Melroe for his interest in the patent. Clark assumed the royalty obligation and then exercised its legal right to question the validity of the patent. Its success in having the patent invalidated led to a disclosure of the wrong that Melroe had done to Keller. However, the acts of negligence, i.e., Melroe's duty and breach of the duty, though unknown to Melroe and to Keller, existed before this time, and created a contingent liability on the part of Melroe existing on the date of the closing of the purchase of assets.

Clark contends that the tort liability arising from the late filing of the 117 patent, even if existing on the closing date, was specifically excluded from being assumed. In arguing this interpretation, Clark relies on the testimony of Edward Schmults, who acted as Clark's attorney in the purchase, and Richard Swanson, who acted as Melroe's attorney at the time. Mr. Schmults concluded that any liability not disclosed to Clark was not assumed by it, and since the tort liability was not disclosed, it was not assumed. (Tr. Trans. Vol. VI pp. 27-43). He was of the opinion that when Melroe failed to disclose the liability, it breached warranties contained in sections 1.4, 1.8, 1.14 and 1.21 of the Agreement, which under section 3.1, constituted a misrepresentation exonerating Clark (Tr. Trans. Vol. VI pp. 92 and 118).

Section 3.1 of the Agreement states in effect that Clark assumed all the liabilities, obligations and covenants of Melroe on the closing date except "* * * (ii) any liabilities not disclosed *due to any misrepresentation by Melroe herein.*" (Emphasis added). The terms of this provision are clear that before nondisclosure would exclude a liability from being assumed by Clark, it would have to be due to a misrepresentation in the Agreement.

In Section 1.4, Melroe was required to represent to Clark only *known* claims against it and facts to the *best knowledge* of Melroe. Melroe had no knowledge of this tort claim at the time of the Agreement. Thus, the clear import of the language of the provision is that Melroe, by not disclosing the liability, did not make a misrepresentation.

Further, in section 1.8 Melroe only represented that *to its best knowledge* there were no claims relating to the patents other than those disclosed. A failure to disclose an unknown liability is not a misrepresentation.

In section 1.4, Melroe represented only that other than that disclosed, *to its best knowledge,* it was not threatened with any legal action. Its best knowledge could not have made it aware of the contingent liability. Under the facts of the case, section 1.4 is of no help to Clark.

Pursuant to section 1.21 Melroe represented that neither the financial statements of Melroe furnished to Clark and referred to in §1.4, nor the Agreement, omitted to state a matrial fact necessary in order to make the statements contained therein not misleading. According to the terms of the Agreement, it was governed by North Dakota law. The intention of the parties as to section 1.21 must be gathered from the entire instrument and not from the isolated clause. Bjerken v. Ames Sand and Gravel Company, 189 N.W.2d 366,374 (N.D. 1971). If reasonably possible, it is to be construed so as to harmonize all of its parts. Id. See N.D. Cent.Code §9-07-06. Looking at the language of section 1.21 in that light, it is clear that it must be read together with the provisions already discussed. Accordingly, omitting to state a material fact in the financial statements referred to in §1.4 would be misleading only if the fact was known to Melroe. And failing to state a material fact else-

where in the Agreement would be misleading only if the particular provision of the Agreement, such as section 1.8 and 1.14, required disclosure. To place a construction on section 1.21 so as to require Melroe to represent that it has not omitted to state a material fact, whether it had knowledge of the fact or not, would cause the "to its best knowledge" language contained in sections 1.4, 1.8, and 1.14 to become meaningless. It is more reasonable to preserve the harmony of the provisions and construe section 1.21 to require Melroe to represent only that to its best knowledge it had not omitted to state a material fact. So construed, it is clear that Melroe was not guilty of any misrepresentation under section 1.21, by not disclosing a tort liability of which it had no knowledge.

The purpose of construing a contract is to ascertain and give effect to the mutual intention of the parties as it existed at the time of contracting. Great Plains Supply Co. v. Mobil Oil Company, 172 N.W.2d 241,247 (N.D. 1969); N.D.Cent.Code §9-07-03. However, the intention of the parties to a written contract must, if possible, be ascertained from the writing alone. Oliver-Mercer Electric Cooperative, Inc. v. Fisher, 146 N.W.2d 346,352 (N.D. 1966); N.D.Cent.Code §9-07-04.

> The contract must be read, considered and construed as an entirety, so that all of the provisions of the agreement will be taken into consideration and construed together to ascertain the meaning and effect of the instrument. In other words, the entire instrument, taken by its four corners, must be read and considered to determine the true intent of the parties.

Gift v. Ehrichs, 284 N.W.2d 435,438 (N.D. 1979). Looking to the four corners of the Agreement, its meaning is

clear. With inclusive language, Clark agreed to assume all the liabilities and obligations of Melroe except as *specifically* excluded. The only exclusions are contained in section 3.1 of the Agreement. Clark would not assume any liability arising out of the breach of any representation or warranty of Melroe contained in the Agreement, nor would it assume any liabilities not disclosed due to any misrepresentation by Melroe in the Agreement. The only provisions of the Agreement in which Melroe warranted or represented anything which would relate to the late filing tort claim are sections 1.4, 1.8, 1.14 and 1.21. In these provisions, however, Melroe only represented that the disclosures were correct to its best knowledge. Since Melroe had no knowledge of the tort claim, its nondisclosure of the claim was not due to any misrepresentation contained in the agreement. Therefore, the late filing tort claim was not specifically excluded, and thus according to the terms of the Agreement, was assumed by Clark.

The Agreement is not ambiguous so as to require extrinsic evidence to interpret it.[2] Clark called Attorney Schmults whose testimony would be relevant only if the contract was ambiguous. Schmults' testimony was clearly inconsistent with the plain terms of the Agreement. There is no language in the Agreement which lends any support to his conclusion that Clark intended to assume only those liabilities which were disclosed to it, regardless of whether Melroe had knowledge of the liability. Had Clark had such intentions it could

[2]Clark asserts that an adverse inference may be drawn from the Kellers' failure to call Mr. Perlman, a scheduled expert witness. The Kellers, however, correctly state that the interpretation of the contract was an issue for the court and that extrinsic evidence in the form of oral testimony was of minimal benefit. Thus, no adverse inference for failing to call such a witness will be drawn.

have easily manifested them in the Agreement by exclusively assuming only those liabilities disclosed and listed in the schedules, instead of using the all inclusive language it did. See Bouton v. Litton Industries, Inc., 423 F.2d 643,652 (3rd Cir. 1970); Goldstein v. Gardner, supra at 583; Bippus v. Norton Co., 437 F.Supp. 104,107 (E.D.Pa. 1977).

The court concludes that pursuant to the Purchase of Assets Agreement entered into between Clark and Melroe, Clark expressly assumed Melroe's tort liability arising from the late filing of the 117 patent.

2. De facto Merger

As stated in J. F. Anderson Lumber Co. v. Myers, supra, a second exception to the general rule that a purchasing corporation is not liable for the liabilities of the transferor is where the transaction amounts to a merger of the transferring corporation into the receiving corporation. The exception, known as de facto merger, focuses on several factors typically characteristic of a merger rather than a sale. They have been described as follows:

> (1) There is a continuation of the enterprise of the seller corporation, so that there is a continuity of management, personnel, physical location, assets, and general business operations.
>
> (2) There is a continuity of shareholders which results from the purchasing corporation paying for the acquired assets with shares of its own stock, this stock ultimately coming to be held by the shareholders of the seller corporation so that they become a constituent part of the purchasing corporation.

(3) The seller corporation ceases its ordinary business operations, liquidates, and dissolves as soon as legally and practically possible.

(4) The purchasing corporation assumes those liabilities and obligations of the seller ordinarily necessary for the uninterrupted continuation of normal business operations of the seller corporation.

Shannon v. Samuel Langston Company, 379 F.Supp. 797, 801 (W.D. Mich. 1974). The same or similar factors have been utilized by a number of courts in addressing the issue of when a corporation is responsible for its predecessor's liabilities on the theory of de facto merger. See e.g., Atlas Tool Co., Inc. v. C.I.R., 614 F.2d 860, 870-71 (3rd Cir. 1980), cert. denied, 49 U.S.L.W. 3246 (1980); Goldstein v. Gardner, 444 F.Supp. 581,583-84 (N.D. Ill. 1978); Araserv, Inc. v. Bay State Harness, Etc., 437 F.Supp. 1083, 1090 (D. Mass. 1977); Ladjevardian v. Laidlaw-Coggeshall, Inc., 431 F.Supp. 834-837 (S.D.N.Y. 1977); Menacho v. Adamson United Co., 420 F.Supp. 128, 133 (D.N.J. 1976)); Ray v. Alad Corp., 19 Cal.3d 22, 560 P.2d 3, 136 Cal.Rptr. 574,578 (1977) (dicta); Turner v. Bituminous Cas. Co., 397 Mich. 406, 244 N.W.2d 873-879 (1976).

Clark asserts that the de facto merger doctrine is limited to social legislation in the area of products liability, and should have no application to the facts of this case.[8] It is true that a number of cases applying the de factor merger doctrine dealt with issues of product liability and the social policy behind that tort theory. See Annot. 49 A.L.R.3d 881 (1973). Clark, however, has not cited nor could the court find any case where a court refused to apply de facto merger because it was not a products liability case. Rather,

courts have applied the theory of de facto merger and utilized the Shannon criteria in deciding whether a successor corporation should be held liable for its predecessor's obligations arising from civil violations of §10(b) of the Securities Exchange Act, e.g., Goldstein v. Gardner, supra; Ladjevardian v. Laidlaw-Coggeshall, Inc., supra, breach of contract, e.g. Araserv, Inc. v. Bay State Harness, Etc., supra, and nonpayment of accumulated earnings taxes. E.g., Atlas Tool Co., Inc. v. C.I.R., supra. The court concludes that the policy of the de facto merger doctrine is served beyond the scope of the products liability area, and reaches to areas of personal torts arising from negligence and that all the criteria for establishing a de facto merger have been met in the instant case.

Clark purchased all of Melroe's assets; plants, lands, inventories, patents, trademarks, etc. The purchase price consisted solely of Clark stock certificates. According to their Agreement, the stock was to be delivered to Melroe, and Melroe in turn was to deliver it to the Melroe stockholders. This was done and the exchange of Melroe shares for Clark shares was treated by the Melroe stockholders as a tax free exchange. (Testimony of Donald Ryman, Tr. Trans. Vol. VIII, p. 70). The result was that there was a continuity of shareholders, where the shareholders of the seller corporation became a constituent part of the purchasing corporation. There was a continuity of management, personnel, physical location, assets, and general business

[3]Clark also suggests that in the absence of North Dakota law, the court should look to Delaware law. Delaware, however, appears to be in the minority in holding that de facto merger will not be found if the transfer was in the ordinary course of business and the seller received and held consideration. E.g., Fehl v. S.W.C. Corp., 433 F.Supp. 939,947 (D.Del. 1977). The court anticipates that North Dakota would follow the more widely followed view.

operations. It became known as the Melroe Division of Clark Equipment. Melroe, in turn changed its name to the Gwinner Holding Company and agreed to cease ordinary business operations, liquidate, and dissolve as soon as legally and practically possible. The Gwinner Holding Company did cease operations, and continued to exist as a shell corporation with no assets or business activities until its charter was revoked in 1974 for failure to file an annual report. Clark's suggestion that the Kellers could have sued the Gwinner Holding Company is untenable. It had no assets to satisfy a judgment. In addition, the former Melroe stockholders agreed not to compete with Clark's business. Furthermore, Clark agreed to assume those liabilities and obligations of Melroe ordinarily necessary for the uninterrupted continuation of normal business operations of Melroe.[4]

It is clear that the Clark-Melroe transaction falls squarely within the Shannon criteria. Therefore, the court holds that alternatively to being liable for Melroe's negligence as a result of express agreement, Clark is liable for the tort arising from late filing of the 117 patent, because the transaction by which Clark acquired Melroe was in fact a de facto merger.

E. Damages

In North Dakota, the measure of damages for a tort is the amount which will compensate for all the detriment proximately caused thereby. N.D.Cent.Code z 32-03-20. A proximate cause of an injury is "a cause which in natural and continuous sequence, unbroken by any controlling,

[4]The Kellers introduced several exhibits, (e.g., Ex. 695) in which the parties referred to the transaction as a merger. However, the fact that the companies might have described their agreement as a "merger" is not controlling. Ladjevardian v. Laidlaw-Coggeshall, Inc., supra at 838.

intervening cause, produces injury, and without which it would not have occurred." Moum v. Maercklein, 201 N.W.2d 399,402 (N.D. 1972). Furthermore, if the defendant had no reason to anticipate that his act would result in injury to anyone, the act is not negligent at all. But if injury to someone is foreseeable, the person guilty of it is liable for the probable consequences, whether he foresaw them or not. Id. at 403.

There can be little question that at the time the patent application was untimely filed, a reasonable person in the place of Clifford Melroe would reasonablye have anticipated economic injury to the Kellers. The court has determined that but for Melroe's negligence, the patent would have been timely filed. It is also apparent, that but for the fact the patent was untimely filed, the Kellers would have benefitted from their license agreement with Clark. The court concludes that the measure of damages in this case is the amount of lost royalties which the Kellers, but for the negligence of Melroe, would have been entitled to receive under the 1971 license agreement from the time they quit receiving royalties in 1972 until the 117 patent would expire in 1983. The court holds that for every skid steer loader which the court has found to embody the invention disclosed and claimed in the 117 patent, manufactured and sold by Clark during this time period in a country where, but for the late filing, there would be a licensed patent, Clark is liable to the Kellers in the amount of fifteen dollars ($15.00).[5]

[5]The May, 1971 royalty agreement between Clark and the Kellers included the 117 patent in its definition of "Licensed Patents." Licensed device was defined as "* * * vehicles embodying the inventions *or any thereof* disclosed and claimed in the Licensed Patents." (Emphasis added). The royalty to be paid was $15.00 for each licensed device made and sold by Clark, and $10.00 for each licensed device made or sold by the sub-licensee.

[31] But for the late filing of the 117 patent, the Kellers had a contractual right to force Clark to join them in suing competitors for infringing on the 117 patent. Regarding those skid steer loaders manufactured or sold by competitors of Clark, which loaders have been found by the court to embody the invention disclosed in one or more claims of the 117 patent, any competitors making or selling such a loader would have been liable for infringement. 35 U.S.C. 1271. Damages for infringement is that which is adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer. 35 U.S.C. §284. However, since the Kellers had granted to Clark an exclusive right to make, use and sell the loaders and grant sublicenses, any royalties expected from an infringer would inure to the benefit of Clark, and the Kellers' benefit would be limited to the stipulated royalty for sublicenses contained in the license agreement with Clark. Cf. Gold Metal Process Company v. E. W. Bliss Company, 285 F.2d 231, 240-41 (6th Cir. 1960), cert. denied, 366 U.S. 911 (1961). The court further holds that for every skid steer loader which the court has found to embody the invention disclosed and claimed in the 117 patent, manufactured or sold by a competitor of Clark's during the pertinent time period in a country where, but for the late filing, there would be a licensed patent, Clark is liable to the Kellers in the amount of ten dollars ($10.00).

To compute the damages accruing to date, it will be necessary that a determination be made as to the total number of machines embodying claim 9 of the 117 patent made and sold by Clark since it discontinued paying royalties to Kellers, and the total number of machines described

in this court's finding No. 80 relative to the 117 patent manufactured or sold by other companies.

Other theories argued by the parties and not discussed in this opinion were considered and found to be without merit.

Order

It is ordered final judgment in accordance with this Memorandum Opinion will be entered when the amount of damages has been determined.

It is further ordered a hearing will be held on June 8, 1981, commencing at 9:30 a.m., or on such other date acceptable to the court and mutually agreed upon by the parties, at which time evidence will be taken for the purpose of determining the number of machines embodying claim 9 of the 117 patent that are covered by this memorandum opinion.

[Appendix omitted.]

Office - Supreme Court, U.S.
FILED
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ALEXANDER L. STEVAS,
CLERK

No. 83-777

IN THE

Supreme Court of the United States

October Term, 1983

CLARK EQUIPMENT COMPANY,
Petitioner,

vs.

LOUIS J. KELLER and CYRIL N. KELLER,
Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

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1983—Northwest Brief Printing Co., 3010 2nd St. No., Minneapolis 55411—588-7506

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NOW COME Respondents, Louis J. Keller and Cyril N. Keller, and respectfully pray that the petition of Clark Equipment Company for a writ of certiorari to the United States Court of Appeals for the Eighth Circuit be denied.

STATEMENT OF THE CASE

Petitioner Clark Equipment Company's (hereinafter "Clark") statement sets forth in some detail the procedural history and factual background of this extended litigation which commenced with the filing by Clark of its declaratory judgment action in the United States District Court for the Western District of Michigan in 1972.

Some of the statements made by Clark are really argumentative and do not conform to the uncontested findings and conclusions of the District Court.[1]

The procedural history of this litigation is accurately set forth in the published decisions of the District Court and of the Court of Appeals for the Eighth Circuit. *Keller et al* v. *Clark Equipment Company et al*, 210 U.S. P.Q. 742, 746-747 (D.N.D. 1981)[2] and *Louis J. Keller and Cyril N. Keller* v. *Clark Equipment Company, and Clark Equipment, A.G.*, 715 F.2d 1280, 1284-1285 (8th Cir. 1983).[3] The findings of fact of the District Court relating to the negligence in the late filing of the application for the '117 patent and the conclusions of law set forth thereafter appear at 210 U.S.P.Q. 759-766 (A 73-95). On appeal to the Eighth Circuit, Clark asserted error with respect to the determinations that Melroe was negligent in not timely filing the application for the '117 patent and that Clark assumed the liability for that negligence when it purchased Melroe in 1969. Clark also placed heavy reliance in its appeal on the applicable North Dakota statute of limitations as an alleged bar to the Kellers' negligence action. *Keller* v. *Clark*, supra, 715 F.2d 1282, 1285-1287 (A 1, 10-13). The Eighth Circuit Court of Appeals affirmed the District Court as to all issues raised on appeal.

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[1]For example, the discussion at pages 3-4 of the Petition of Clark's relationship with its licensees, the reference to the unidentified letter "discovered in the Melroe files," and the alleged theory on which Clark elected to sue the Kellers rather than the unidentified infringing competitors for the most part find no support in the record.

[2]The District Court decision is reproduced in the Appendix to Clark's Petition commencing at A-26. The Appendix pages corresponding to those referenced above are A 36-37. Similar references to the Appendix appear hereinafter.

[3]The Eighth Circuit Court of Appeals decision is reproduced in the Appendix to Clark's Petition commencing at A-1. The Appendix pages corresponding to those referenced above are A 7-9.

REASONS FOR NOT GRANTING THE WRIT

1. The Question Asserted does not Truly Arise as Presented.

Clark has presented a single question in support of its petition which is misleading and which does not truly and accurately reflect the record below. That question is so stated as to give the erroneous impression that the District Court and Eighth Circuit Court of Appeals somehow misused state tort law in such a way as to require Clark to continue paying royalties under an invalid patent. Hence, argues Clark, there is a conflict with federal patent policy.

That is simply not the situation presented by the record below. The Kellers sought in their counterclaim against Clark, and the District Court correctly granted, relief from Melroe's negligence in the late filing of the application for the '117 patent. *Keller* v. *Clark*, supra, 210 U.S.P.Q. at 747, 766, 769-770. (A 39-40, 94-95, 102-106).

As the trial court found, and the Eighth Circuit affirmed, the tortious act of failing to timely file the application for the '117 patent damaged the Kellers. The '117 patent was held to cover a patentable invention; it was declared invalid only on the grounds of a statutory bar under 35 U.S.C. 102(b) arising from the failure of Melroe to file the application within one year from the date that Melroe first offered for sale the Bobcat loader embodying the '117 patent claims. *Keller* v. *Clark*, supra, 715 F.2d at 1285. (A 9).

The wrong suffered by the Kellers as a result of the negligence of Melroe became actionable in 1972 when Clark ceased paying royalties to the Kellers under its 1971

license agreement with them. *Keller* v. *Clark*, supra, 210 U.S.P.Q. at 766 (A 95-96); 715 F.2d at 1285-1287 (A 10-17). It was not until that date that the Kellers were damaged by the tortious act of negligence for which the courts below held Clark liable on the basis of the terms and conditions under which it acquired Melroe.

The decisions below thus awarded the Kellers damages for the injury suffered through the destruction of their property rights in the '117 patent. *Their 1971 license agreement with Clark was relied upon only as a measure of those damages.* There has been no enforcement of an invalid patent. This clear nature and impact of the proceedings below is best reflected by the following language from the decision by the District Court, affirmed by the Eighth Circuit:

> "There can be little question that at the time the patent application was untimely filed, a reasonable person in the place of Clifford Melroe would reasonably have anticipated economic injury to the Kellers. The court has determined that but for Melroe's negligence, the patent would have been timely filed. It is also apparent, that but for the fact the patent was untimely filed, the Kellers would have benefited from their license agreement with Clark. The court concludes that the measure of damages in this case is the amount of lost royalties which the Kellers, but for the negligence of Melroe, would have been entitled to receive under the 1971 license agreement from the time they quit receiving royalties in 1972 until the 117 patent would expire in 1983."

210 U.S.P.Q. 742, 775 (A 119).

On appeal to the Court of Appeals, Clark did not contest the measure of damages found by the District Court.

Clark does not now contest the rulings of the Court of Appeals affirming the District Court on the statute of limitations and negligence issues presented to the Eighth Circuit.[4] Clark has thus in effect acknowledged that Melroe was negligent in not timely filing the application for the '117 patent, and that the Kellers were damaged by that negligence. Moreover, Clark does not take exception in its petition to the findings and conclusions below that it assumed liability for the resulting tort through the express terms of its acquisition agreement with Melroe and by way of a *de facto* merger.

Now, as its final attempt to avoid liability for the tortious injury incurred by the Kellers, Clark seeks to raise for the first time in the eleven year history of this litigation a question of conflict with federal patent policy which does not in reality exist.

2. There is no Conflict with Federal Patent Policy.

Clark asserts that the decision of the Eighth Circuit Court of Appeals, affirming a judgment based on state tort law, clashes with the objectives of the federal patent laws. As noted above, this alleged conflict is based on a mischaracterization of the record below, and simply does not exist.

As Clark has correctly noted, Article I, §8, cl. 8, of the Constitution does provide the constitutional basis for the patent laws enacted by Congress. The objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property was to ". . . promote

[4]The issues raised by Clark on its appeal to the Eighth Circuit are noted and discussed by the Court at 715 F.2d 1282, 1285, 1287, 1289, and 1291. (A-1, 10, 13, 17, and 23-24).

the progress of science and useful arts." The patent laws promote such progress by offering a right of exclusion for a limited period for inventions that are significant advances in the art. Such rights embodied in patent grants are in the nature of personal property rights.

The '117 patent reflects such progress through the Kellers' contribution to the design and the development of the Bobcat loader. That loader development has generated a multimillion dollar industry, and Clark has been a principal beneficiary of this commercial success story. The purpose and intent of the Constitution to reward inventors has been thwarted through the negligent acts of Clark's predecessor-in-interest, Melroe, in not timely filing the application for the '117 patent. It was that tortious act which destroyed the Kellers' property rights in the otherwise patentable invention embodied in the '117 patent. The redress for that wrong provided by the damages awarded by the District Court does not constitute any kind of violation of the aforesaid Constitutional provisions or of federal patent policy evolved to fulfill those provisions.

In contending that the Kellers have no remedy for the destruction of their property rights in the '117 patent because of an alleged conflict with federal patent policy, Clark relies on *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 656 (1969); *Sears, Roebuck* v. *Stiffel Co.*, 376 U.S. 225 (1964); and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). Clark's reliance on those cases is misplaced.

Under the doctrine of *Lear* v. *Adkins*, supra, a licensee is permitted to challenge the validity of the licensor's patent. That doctrine has been given full effect. Clark with-

held royalties from the Kellers and succeeded in having the '117 patent declared invalid. However, that patent was declared invalid only on the grounds of the negligent failure by Melroe to timely file the application for the patent; and Clark assumed the liability for that negligence when it purchased Melroe in 1969. There is nothing in the *Lear* decision which would allow a licensee to escape its royalty obligations by relying on the misfeasance of its predessor-in-interest to invalidate the licensor's patent.

Clark erroneously asserts that the decisions in *Sears, Roebuck* v. *Stiffel Co.* and *Compco* v. *Day-Brite Lighting, Inc.*, supra, somehow preclude the enforcement of any tort law which touches in any way upon federal patent grants. No such broad holding flows from those decisions. In both *Sears* and *Compco*, there was an attempt to enforce alleged proprietary rights in unpatentable or unpatented articles under state unfair competition laws. It is true that under the holdings in *Sears* and *Compco*, unpatentable or unpatented articles cannot be removed from the public domain by state unfair competition law. However, neither *Sears* nor *Compco* offers a shield for one who negligently destroys the property right of another in an otherwise meritorious patent by failing to timely file a patent application. The Kellers have not sought and do not seek any enforcement of a proprietary right outside of a valid patent. They sought, and have properly been awarded, damages which were proximately caused by Clark-Melroe's destruction of proprietary patent rights.

Clark urges an extension of the federal patent policy established in *Sears, Compco*, and *Lear* to pre-empt state tort law of negligence, and preclude recovery by a licensor from a licensee who negligently causes the loss of rights

in an otherwise patentable invention. The decision of this Court in *Kewanee Oil Company* v. *Bicron Corporation et al,* 181 U.S.P.Q. 673; 416 U.S. 470 (1974) directly refutes the erroneously broad concept of federal patent policy asserted by Clark. In that case, the Court held that Ohio trade secret law is not pre-empted by federal patent law. Misappropriation or theft of a trade secret is an act of malfeasance sounding in tort. Enforcement of trade secret protection under state tort law was deemed to be permissible and not in conflict with or precluded by federal patent policy.

In *Kewanee* the Court reiterated the policy of the patent law enunciated in *Lear, Sears,* and *Compco,* supra, to the effect that the States may not properly take any action which would remove from the public domain subject matter which properly belongs there. The Court further noted in *Kewanee* that in *Goldstein* v. *California,* 412 U.S. 546, 178 U.S.P.Q. 129 (1973), it had held that the cl. 8 grant of power to Congress was not exclusive, and that at least in the case of writings the States were not forbidden from encouraging and protecting the efforts of those within their borders by appropriate legislation. The Court went on to make the following pertinent statement with respect to federal patent policy:

> "Just as the States may exercise regulatory power over writings so may the States regulate with respect to discoveries. States may hold diverse viewpoints in protecting intellectual property relating to invention as they do in protecting the intellectual property relating to the subject matter of copyright. The only limitation on the States is that in regulating the area of patents and copyrights, they do not conflict with the operation of the laws in this area passed by Con-

gress, and it is to that, more difficult question we now turn."

Kewanee Oil Company v. *Bicron Corp.*, supra, 181 U.S.P.Q. at 677.

The decision of the Eighth Circuit in this case does not remove from the public domain any subject matter which properly belongs there, in opposition to the federal patent policy enunciated by this Court. The subject matter of the '117 patent did not enter the public domain because of lack of invention or forfeiture by the Kellers under 35 U.S.C. 102(b). The inventive subject matter was lost only because of the negligence attributable to Clark in the late filing of the application for the '117 patent. There is no federal policy which favors the destruction of one's property by another through misfeasance. There is no support in *Sears, Compco,* and *Lear* for such a proposition. The Eighth Circuit properly upheld the application of state tort law in such a way as to compensate the Kellers for the damages arising from the destruction of their property rights in the '117 patent.

CONCLUSION

The decision of the Eighth Circuit awarding damages to the Kellers for negligence resulting in the loss of their valuable property rights in the '117 patent does not conflict with federal patent policy. On the contrary, it furthers and supports the constitutional purpose of promoting the progress of science and the useful arts by securing to inventors their rightful rewards for meritorious developments.

Accordingly, the petition for certiorari should be denied.

Respectfully submitted,

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